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# ECONOMIC SECURITY ACT

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## HEARINGS

BEFORE THE

COMMITTEE ON WAYS AND MEANS

HOUSE OF REPRESENTATIVES

SEVENTY-FOURTH CONGRESS

FIRST SESSION

ON

H. R. 4120

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## CONTENTS

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Statements of—	Page
Dr. Edwin E. Witte, executive director, Committee on Economic Security-----	135
Hon. Frances Perkins, Secretary of Labor-----	138
Hon. Harry Hopkins, Federal Emergency Relief Administrator-----	199





## ECONOMIC SECURITY ACT

TUESDAY, JANUARY 22, 1935

HOUSE OF REPRESENTATIVES,  
COMMITTEE ON WAYS AND MEANS,  
*Washington, D. C.*

The committee met at 11 a. m., Hon. Samuel B. Hill presiding.

Mr. HILL. The committee will be in order.

Mr. Witte, you may proceed with your statement on the feature of the bill before the committee dealing with unemployment compensation.

### STATEMENT OF E. E. WITTE—Resumed

Mr. WITTE. Mr. Chairman and gentlemen: I reached the point yesterday of the discussion of the provisions of the bill itself. The subject of unemployment compensation is dealt with in title VI, which begins on page 34 in the bill.

This bill contemplates what the report of the committee called a cooperative Federal-State system of unemployment compensation. It is a system built up on State lines, but with the Federal Government making it possible for the States to act and with the Federal Government assuming the responsibility for the safeguarding of the reserves.

States are accorded wide latitude in other respects, but must expend the entire amounts collected for unemployment-compensation purposes.

Section 601 on page 34, and section 606, on page 43, should be read in conjunction, section 606 being the definition section.

The effect of the two sections is this: An excise tax is imposed on employers. It is imposed on all employers. That appears from the definition of employer. It is imposed on employers who employ four or more employees, excluding governmental units and excluding employers in any industry for which Congress may set up a separate unemployment-compensation system. There is no such system now, but in the event that Congress should see fit to set up a separate system, for instance, for railroad employees, or for the employees of interstate carriers, this bill would not apply; or if you saw fit to set up a separate system for any other industry, that is within your control.

Mr. LEWIS. How about Government employees?

Mr. WITTE. Government employees are excluded from the tax, for obvious reasons. The Federal Government cannot impose a tax on the States or the political subdivisions of the States. This is a tax measure.

The committee in its report recommended that the States should make their own laws applicable to Government employees, but nothing that Congress can do can compel them to do that, if they do not wish to do so.

The tax is to begin January 1, 1936, and the rate after January 1, 1938, is 3 percent. In the first 2 years, the years 1936 and 1937, the rate is to be governed by the index of production, and the best index of production we have is the index of the Federal Reserve Board. If the index of production is 84 or less in a period which ends on January 30, 1936—that is a misprint, there, on page 35; the date should be 1936—

Mr. COOPER. What line is that?

Mr. WITTE. That is on line 12 and line 15.

Mr. COOPER. You say that ought to be 1935 on line 12 and 1936 on line 15?

Mr. WITTE. I beg your pardon; no—

Mr. COOPER. Let us get that straight right now.

Mr. WITTE. It is all right. The previous paragraph (b) governs the first year. It is correct in the bill. I was looking at the wrong section.

Paragraph (a) on page 34: If in the 12 months ending September 30, 1935, the index of production is 84 or less, the rate is 1 percent. It is 2 percent if the index of production is more than 84 and less than 95. It is 3 percent if it is 95 or above.

Those figures work out this way. At the present time, the index of production is approximately 80. If conditions continue, if over this whole year period that we are in conditions do not materially improve, the rate is 1 percent. It is 2 percent if there is substantial but not complete recovery, and it is 3 percent if there is complete recovery.

The same provision applies for the next year following, after which the 3 percent rate takes effect in any event.

The tax is computed on the entire pay roll.

I do not think it is necessary to elaborate upon the collection provisions. They were drafted by the Treasury Department. They are the provisions that are quite customary in excise taxes.

Against the Federal tax a credit is allowed under section 602, page 36, for payments made under State unemployment compensation acts, contributions to State unemployment compensation acts. The credit is up to 90 percent of the Federal tax. In any event, 10 percent of the Federal tax is imposed. There is a credit of the amount paid by the employer, but not to exceed 90 percent of the tax. Of course, the purpose of the entire scheme is to make it possible for States to enact unemployment compensation acts. States cannot assume the cost that is involved in unemployment compensation, cannot very readily burden their employers with the cost of unemployment compensation, unless they know that their competitors in other States will also have that same cost. That is a necessary measure to enable the States to act. The cost of unemployment compensation—and these rates are admittedly moderate; these will only pay moderate benefits—the cost of unemployment compensation is appreciably greater than workmen's compensation. If the States are to act at all, there will have to be uniformity in this major respect—uniformity of cost.

The system operates so that employers in a State that does not enact an unemployment compensation act will have the same cost as employers in States that do enact an unemployment compensation act. The disadvantage that a State puts itself under by enacting such an act is removed by this act.

As to the conditions of credit: Credit is allowed under State laws which meet certain minimum requirements. Those minimum requirements are set forth in section 602, pages 36 and 37. First, a State must have accepted the Wagner-Peyser Act, the act which Congress passed last year, establishing a cooperative Federal-State system of public employment offices. Everywhere the world over unemployment compensation has been linked to the public employment offices, because unemployment compensation is compensation for involuntary unemployment. A man, to be compensated, must be compensated only if he is unemployed involuntarily. The employment office is the best test. A Nation-wide employment service, a really functioning employment service, is the best test that can be worked out of willingness to work, so that the compensation is limited to involuntary unemployment. So the act provides that the State must accept the provisions of the Wagner-Peyser Act.

Paragraph (b) provides that payments of compensation must be made through the employment offices, and that no benefits are to be paid until 2 years after contributions take effect. That is to give a reasonable chance to build up something of a fund, so that there is a fair chance of having the State funds prove successful. If benefits are paid before any fund has been accumulated, there is grave danger, of course, of bankruptcy, particularly under the provision that we have in this bill under which, in the first and second years, the rates may be 1 or 2 percent instead of 3 percent. That renders it vitally necessary that no benefits be paid for the first 2 years.

Paragraph (c) provides that all funds, all unemployment-compensation funds collected by the States, must be deposited with and be invested and liquidated and under the control of, the Secretary of the Treasury. That is the function that the Federal Government assumes in the interest of promoting stability, in the interest of the use of the funds to promote industrial stability, rather than to run the danger that in the early stages of a depression, when unemployment compensation funds will be drawn on heavily, the throwing of securities upon the market will actually increase unemployment. The purpose is to prevent that result.

Paragraph (d) is in many respects the most important condition. The money that the State collects must under all circumstances be spent for unemployment-compensation purposes and no other purpose. That is a condition of recognizing a State law. The money which is collected—and the States can determine for themselves what benefit rates they wish and what waiting periods, and so forth—must be used for unemployment compensation purposes, and they cannot use it for anything else.

We believe that that removes all necessity of inserting any more benefit provisions or anything of that sort. The States cannot spend the money for anything else, and sentiment in the States will certainly insist that the money be spent, if it has been collected.

The next paragraph is one which states that no State may deny compensation to employees under the following conditions: If they refuse to accept employment in a place which is vacant due to a strike, lockout, or other labor dispute. That does not mean that compensation is paid to men who are on strike. It does provide that compensation cannot be denied to a man who refuses to take a job as a strike-breaker.

Second, compensation cannot be denied if the wages, hours, or other conditions of work offered are substantially less favorable to the employee than those prevailing for similar work in the locality. The employee cannot lose his compensation rights because he refuses to accept substandard work. That does not mean that it goes even so far as to say that he cannot be required to accept work other than that in which he has been engaged; but if the conditions are such that they are substandard, that they are lower than those prevailing for similar work in the locality, the employee cannot be denied compensation.

Third, compensation cannot be denied if the acceptance of such employment would either require the employee to join a company union or would interfere with his joining or retaining membership in a bona fide labor organization. This says that the employee cannot lose his compensation rights because he refuses to join a company union or because under the circumstances he would have to give up his union membership in order to receive this work.

Finally (F), there must be in the State law a provision under which no vested rights will be built up against change or modification. If, in the course of time, Congress should see fit to insert additional conditions, we want the door left open to insert such additional conditions as may become necessary. No vested right shall be created against change of the law. That must be inserted in the State act. In the last section, on page 63, section 902, we also provide very specifically that nothing in this act shall prohibit alteration, amendment, or repeal by the Congress. It probably would not in any event; but we wish to make it doubly certain that if the Congress desires to insert further conditions at a later date, it may do so, if that should become necessary.

There is a section on additional credits which is section 607 and also 608, beginning at the bottom of page 47. This provides that under certain circumstances in the future, not immediately, employers may receive additional credits against the Federal tax beyond the amounts which they have paid in that particular year. Normally the Federal tax is assessed at the end of the year, or, rather, after the close of the year, and the credit is the amount which the employer has actually paid during the taxable year. Under certain circumstances the employer may get additional credits. That additional credit is allowed if the State law permits the employer to pay a lower rate of contribution than other employers are required to do, because he has stabilized his employment, because he has cut down his unemployment, and has built up an adequate reserve fund.

There are conditions that must be met, obviously. Such additional credit must be surrounded with safeguards and this bill has very comprehensive safeguards.

Referring to section 608: The additional credit may be allowed in States where employers are permitted to have their own individual account. In such States, additional credit is allowed only if the employer has built up a reserve fund of 15 percent of his pay roll. He cannot build up that reserve fund short of a very long period. Likewise, this 15 percent is approximately three-fourths of the maximum liability that can be computed. Assuming that every employee were discharged all at once, and assuming that every employee were entitled to the maximum benefits and were unable to procure other

work for the entire period that the benefits would run, this is approximately 75 percent of the maximum liability. That is a very extensive safeguard. There is the further safeguard that such an employer must continue to contribute at least 1 percent. Similarly, employers under a so-called "guaranteed-employment fund" can, under certain circumstances, be allowed additional credit, but only if they have observed all their guaranties and if they have built up a reserve fund of at least 7½ percent of their total pay roll.

Under pooled funds, States may establish so-called "merit-rating provision", which will permit employers that have a very good employment record a lower rate, but only on the basis of their experience, and only after 5 years.

In other words, this additional-credit provision, which is a complicated one, and which I know I have not explained quite adequately, is a provision which will come into operation only in the future; and for the moment I think I will pass it and permit you to ask questions upon that point, realizing that I have perhaps not made it entirely clear. But the idea is that employers who have stabilized their employment, who have little unemployment, who have over a period of years developed an experience which is favorable, if permitted by the State—and that is always the condition—may be allowed a credit against the Federal tax. The idea there is that the State law shall be controlling upon this point. It is in accordance with the thought emphasized by the President in his message to the Congress that this plan should, so far as possible, encourage the stabilization of employment. This is an attempt to do that.

I want to say a word at this stage about the investment of the fund. That is covered in section 604, on page 38, a section, again, written by the Treasury Department. That section contemplates that State funds collected for unemployment-compensation purposes shall be deposited in the United States Treasury in a separate account, a trust account, for the benefit of the State; that the Secretary of the Treasury shall have control of the investment of such funds and shall have control over the liquidation of such funds. He is authorized to buy any securities from these funds if he deems this advisable. The provision is for investment in the securities of the United States, and an interest earning is to be credited on these funds equal to the average interest earnings on all obligations, primary obligations, of the Government, adjusted to the next lower one-eighth percent, if the fraction is different.

The funds are to be invested in the best security we know of, the security of the United States Government, and are to be handled in such a way that these funds will promote stabilization rather than the reverse.

The provisions regarding the Federal part of the administration of this plan occur in section 401 and section 402 on page 21. There is set up a social insurance board within the Department of Labor. That social insurance board, in addition to administering unemployment compensation—the Federal part of it—is to have responsibility for the compulsory annuity systems that we discussed yesterday, and is to have responsibility for any other systems of social insurance that may subsequently be provided by act of Congress.

The board is to consist of three members appointed by the President for 6-year terms, staggered in such a way that the term of one member will expire each 2 years.



There is an appropriation to the board at this time of \$1,000,000 for the performance of its duties. That is the substance of the appropriation, plus this: The board will allot to the States for administration of their unemployment compensation acts in the first year \$4,000,000, in the second year \$49,000,000, the total being \$5,000,000 for the two administrations combined in the first year and \$50,000,000 in the second year. The source of that money as we vision it is the 10 percent retained from the Federal tax. That is the source of the money which will pay the administration costs.

The provisions under which the grants to the States are made for administration occur in section 407, which begins on page 30. The conditions are set forth in that section.

The employees concerned with unemployment compensation, and most of those employees are the employees in the public employment offices, financed jointly by the State and Federal Governments, shall be selected on a nonpartisan basis and on a basis of merit under rules and regulations prescribed or approved by the board.

There is a requirement that the grants shall be conditioned upon the board's being satisfied that there is efficient administration; that there is a fair hearing procedure under which employees who are claiming unemployment compensation can get a fair hearing to determine their rights; and that necessary reports are made to the Federal agency to enable the Federal agency to collect statistical data, to enable the Federal agency to determine what changes are desirable in the unemployment-compensation system.

And finally, and very important is this clause, on a work benefit, on page 31, a clause which states that after an employee has exhausted his rights to a cash benefit under a State unemployment-compensation act, he shall be certified as entitled to a work benefit through the agency of the United States charged with the administration of public works or other assistance through public employment. That is the language providing for this link between this unemployment-compensation system and the work program which the Federal Government is launching; the link which means that after the exhaustion of cash benefits, an employee, if still unemployed and at that time unable to procure other employment, shall be entitled to a work benefit.

Actual payments of the amounts for administration are to be made to the States monthly under section 408, which is to be found on page 32.

So much for the detail. Now a few general comments, if I may be permitted.

Our actuaries and statisticians calculated that if a system of this kind has been in operation on a Nation-wide basis in all States in the year 1933, approximately 16,000,000 workers would have been brought under the unemployment-compensation system. If there had been a 100-percent employment in that year, something like 25 or 26 million workers would have been brought under the system, about one half of the people gainfully employed, and a much larger percentage of the workers.

If a system of this kind had been in operation from 1922 to 1933, with the 3-percent contribution rate contemplated, the average collections on a Nation-wide basis would have been approximately \$825,000,000 a year, or about \$10,000,000,000 for the entire period.

In the twenties the collections would have considerably exceeded the benefits.

After the depression set in and by the time the depression set in, after 7 years of the system, a reserve fund of something in excess of \$2,000,000,000 would have been built up. That would have been available in the early period of the depression and, on the basis of benefits that the committee suggested to the States as the ones that they had better start out with, a basis of benefits which contemplates that you have a 4-week waiting period, a 50 percent benefit with a maximum of \$15 a week and a limit on the maximum period of 16 weeks—under such a system, thus fund would have run through 1931. In that period there would have been available, in the early stages of the depression this reserve fund, which would, of course, very materially have helped to sustain purchasing power and unquestionably would have helped at that stage to check the depression to some degree. We do not suppose that it could have stopped it, but it certainly would have had a beneficial effect.

In general, unemployment compensation, of course, is a program of insurance and, as set forth here, is a program in which compensation is divorced from relief. The program is contemplated to be self-sustaining. There are no Government contributions toward unemployment compensation, the governmental contributions coming into the picture to provide work. That is the major governmental contribution.

The benefits would necessarily be limited. The benefits will vary with the rate. If you have a higher contribution rate, you can pay larger benefits. But with any contribution rate that you contemplate, so long as the system is strictly an insurance system and relief money does not get into the picture, the benefits necessarily will be limited to a given period and there will be a time in a severe depression when people will run out of their benefits. This bill contemplates that at that stage they shall be given a work benefit rather than a cash benefit.

While limited, the benefits are, we believe, valuable. The benefits comes in at the stage where the employee first loses his employment, after a waiting period. In that stage the employee still has a reasonable prospect of getting back to his old employment. At that stage it is certainly to the interest of the employee that he should not be forced to accept a job on public works that may take him away from his opportunity to get back to his old job.

If his unemployment continues beyond such reasonable limited period, then obviously, as our committee sees it, the better thing to do is to provide a work benefit rather than an extended benefit which comes in cash out of the Government, the idea being a limited benefit on strictly insurance lines for a period during which the employee has a reasonable opportunity to get back his old job quite soon—when he is daily expecting, very often, to get back to his job.

I also want to say something at this point about the distribution of the costs contemplated. The Federal tax is imposed on the employer alone. The States may, if they see fit, add contributions by employees, contributions from State funds. That is up to the States. If they do so, that will increase the benefits.

The contribution by the employer is made uniform because it is impossible for the States to act unless the cost to the employers throughout the country are uniform. I think that is elementary.

The costs to the employer, of course, mean costs that are shifted to the consumer. This is not, however, to be regarded as a sales tax. This is part of the wage bill. You do not call it a sales tax when the employer pays the wages. You do not call it a sales tax when the employer pays workmen's compensation on account of accidents. That is part of the wage costs.

Similarly, as we vision unemployment compensation, this limited benefit during a period while the employee is waiting to get back to his old job, when the employer at that stage is encouraging him to wait, when the employer tells him, "We have not got an order this week, that is true, but next week we will probably have orders, and you will probably come back"—at that stage, when the employee is waiting to return to his old employment, usually with the encouragement of his employer—that part of the contribution is part of the wage bill, and should be so regarded, and this is a device to make it a part of the wage cost.

Beyond that, for unemployment in a severe depression, prolonged unemployment, it is not contemplated that the cost of that shall be charged to the employer altogether. At that stage the Government comes in.

But under this program that we are presenting, the Government comes in to provide work rather than a dole. That is the program of this bill.

These are governmental contributions which in the total are larger than those that any foreign country has ever made to any unemployment-compensation system. But they are compensations in the way of providing work rather than providing an extended cash benefit, beyond this rather limited period when the employee may reasonably expect to get back to work.

I think that concludes my primary discussion, Mr. Chairman, and I shall be glad to answer any questions.

MR. LEWIS. Doctor, we were speaking now of credits that may be allowed the employer under the tax that may be imposed. Will you take the concrete case of the Swope organization, for this purpose, and will you please apply the credit provision to that Swope organization, assuming that it comes in under the act as a competent institution. You told us that the act does not apply to Government employees—State or Federal. I want a concrete picture of how it applies to some private organization, and I am suggesting the General Electric Co., of which Mr. Swope is president.

MR. WHITE. Mr. Swope is the president of the General Electric Co., a large employer, with plants in many States, but the largest of its plants are in the State of New York.

Since 1930 the General Electric Co. has had a voluntary unemployment-compensation system, the largest single unemployment-compensation system in this country; a system, I think, that applies to about 50,000 employees at the present time. I think that is about the figure. That means more employees than there are in some States. It is a system which has stood up remarkably well during this depression.

Let me apply this to the State of New York only, where I think the largest number of these employees are to be found. If the State of New York permits what are to be known as "individual accounts," individual-plant accounts—and I think there is a bill now pending in



the State Legislature in the State of New York which does not permit such accounts—it will be up to the State whether it wishes to permit individual accounts or not, but, assuming that it does permit them, then Mr. Swope presumably could set up an individual account. Let me say, instead of Mr. Swope, the General Electric Co. The General Electric Co. can set up an individual account. Of course, I take it for granted, the company is financially responsible, so that it can satisfy the State administration that it can maintain an individual account.

Assuming that the State of New York imposes a tax of 3 percent only, as the Federal act will require, in the first year under the act the General Electric Co. will pay to the State of New York a 3-percent contribution on its pay rolls. Under State unemployment-compensation acts these are not usually called taxes at all, but they are called contributions or premiums—either one. Normally they are collected monthly.

During the year we will assume that the State of New York will pass an unemployment-compensation act, shortly after this Congress has enacted the necessary legislation to tell the State of New York where it is in this respect. I think that that is a fair prediction, because Governor Lehman stated that the unemployment-compensation bill which he has had drafted is bill no. 1 on his calendar and he is now awaiting the action of the Congress and has advised his legislature that as soon as he knows what will be the necessary legislation he will push for the enactment of the unemployment-compensation bill now pending in that State.

Assuming that that bill is in effect January 1st, when this act takes effect, I will also, for the sake of simplicity, assume that we have during the next year such recovery that the 3-percent rate will be in effect. The General Electric Co. will pay during that year monthly contributions on a certain basis to the State of New York, of 3 percent of their pay rolls. That same picture will continue until the General Electric Co. has built up the reserves that are required for this additional credit under the bill.

The State will maintain a separate account with the General Electric Co. in which it will credit on one side the payments made by the General Electric Co. and on the other side it will charge the compensation paid to employees of the General Electric Co. for unemployment compensation. That is what we mean by an individual account. That account will be kept by the State.

The actual money will be deposited in the United States Treasury, just as will be the money of every other employer who is not permitted to have an individual account. The State keeps the entire record with the General Electric Co.—not the Federal Government. The State administers the payment of the compensation to the employees of the General Electric Co. under such rules and regulations as it may adopt and again through the employment offices.

At the end of the first year, let us say in January 1937, the General Electric Co. will be required to make a report to the Treasury of the United States on its pay rolls for that year; as a credit against the 3-percent tax which the Treasury will figure out on the General Electric Co. account, there will be allowed the payments which have been made by the General Electric Co. under the New York act during that year, up to 90 percent of the Federal tax. Three-tenths

of 1 percent of the pay roll will be collected from the General Electric Co. and every other employer subject to this tax in the first year.

Mr. LEWIS. That means, then, in general, that a private company can have a separate account for its own institution, dependent upon what the State legislature has to say about it.

Mr. WITTE. Certainly. The State legislature can say, "We will have nothing to do with private accounts. We will amalgamate all of these funds in a central pooled fund. We will take the money of the employers and will pay out compensation to the employees regardless of whether they were employed by Tom Jones or Harry Smith."

But it can, if it so desires, keep a separate account with the employer, and make him pay for his own unemployment compensation and nobody else's. That depends upon the State law.

If New York permits separate accounts, the General Electric Co. can have one. If New York does not want that, nothing in this act compels New York to have it. New York can decide for itself on what basis the employees of the General Electric Co. who work in the State of New York shall be compensated.

I have not dealt with this additional credit. The additional credit will come in under the laws of New York at a time when this reserve fund of the General Electric Co. has been built up to 15 percent of its pay roll. That will be a long time in the future. How long in the future depends upon how much unemployment the General Electric Co. will have. If it has built up that credit to that point, then, if the State law permits the General Electric Co. to pay a lower rate of contribution than 3 percent, we will still give the same credit that the State law gives to the General Electric Co. That is the scheme. But we put the further restriction on that in no event may the State law reduce that rate to less than 1 percent, which must be contributed to the central pooled fund of the State, the idea being that although the General Electric Co. may have taken care of its employees in an exemplary manner, after all, in order to have the benefits of the insurance features, it should make some contribution to the general unemployment fund in the State. That is the central idea.

This additional credit is not something that will come into effect immediately. The States are required to start with uniform rates, but, if they so desire, they may establish these individual accounts, and may give in the course of time special credits to employers who have had a favorable experience, who have stabilized their employment, and they may do that even if they do not permit individual accounts. They may, after 5 years, make different rates for different industries. They may give lower rates for employers who have had a good experience; that is the merit-rate provision. You can have that with a law such as Governor Lehman has now pending in New York, in which there will be no individual accounts. But under such a law reductions cannot be permitted until after 5 years, because a reduction based on less than 5 years initial period, of course, is on such a short period of time that you have no real basis for determining whether that is due to special efforts at stabilization or whether it is just merely accidental in a particular year.

If that has not explained the point, I shall be glad to elaborate it further.

Mr. HILL. On that point of the State allowing a lower rate to a particular industry on the basis that it has done a good work in stabilizing employment in that industry, how does that affect the credit which such an industry may have as against the tax levied by the Federal Government?

Mr. WITTE. That is the additional-credit provision. Assuming that this is not an individual account that you are thinking about, but a general State pooled fund, in which certain industries are permitted to have lower rates—that is, not for 5 years but after 5 years—a State may, for instance, grant a lower rate to banks, let us say. That is because banks probably have relatively little unemployment; certainly much less than, for instance, contractors. Or they may grant a lower rate to employers who, on their own individual experience—whether they be manufacturers in the electrical manufacturing business—have had a very favorable experience during these 5 years.

When that lower rate comes into effect we say that although we grant you a credit, you must always pay 1 percent as a minimum. That is provided in this section. The State cannot make the rate less than 1 percent. Let us assume the State allows the maximum reduction that is possible.

Now, in addition to that 1 percent, there is another 1.7 percent in the picture, as you understand. The Federal tax is 3 percent. Three-tenths of 1 percent has to be paid anyhow, for administration. One percent has to be paid to the State fund, in any case. But there is an additional 1.7 percent which, under the State law, we are assuming will not have to be paid because this is an industry that has a low rate of unemployment or because this is a plant which has had a very favorable experience. In that case we say, in effect, that if the State does not require you to pay that 1.7 percent, the Federal Government will not either. That is the effect of it.

Mr. COOPER. Will the gentleman yield?

Mr. HILL. I yield.

Mr. COOPER. Doctor, if I understand the underlying principle supporting the idea of a Federal tax, it is to make it uniform throughout the entire country?

Mr. WITTE. Yes, sir.

Mr. COOPER. Thereby meeting a difficulty that would naturally arise on account of the element of competition.

Mr. WITTE. Certainly.

Mr. COOPER. That is, competition between certain business enterprises. If the system is to make allowance for certain industries to have special accounts, does not that strike at the very principle that is supposed to prevail through the whole system?

Mr. WITTE. It does to a very slight extent, possibly; I will grant you that. But there is a balancing of that against the other fact or that everybody realizes—that unemployment compensation should be something more than merely a payment of benefits on an insurance basis. As the President expressed it, unemployment compensation should furnish an incentive to reduce unemployment. It is a question of balancing items.

Through this additional credit you do allow, for instance, the General Electric Co.—assuming that the General Electric Co. has much more favorable experience and under the laws of New York it would be permitted to have an additional credit—I say, the General Electric

Co. would be allowed to have a lower rate than its competitor, the Westinghouse Co., or the Allis-Chalmers Co., in our State, who are competitors with General Electric Co. In a sense, that destroys the element of uniformity. But we are doing that for a definite purpose, the definite purpose being to encourage employers to stabilize their employment—to reduce unemployment if they can. This provision of additional credit does not become effective immediately, as you will appreciate. The provision takes effect quite far off in the future. But it is something set up to give the employers an incentive right now to look forward to in reducing their unemployment to the maximum degree possible.

Mr. COOPER. Just on that point, I am sorry, but I am unable to follow you exactly on that. You speak of the effect in the future. That is exactly what I have in mind. If a certain industry is to receive a preferential rate, and, as time goes on, these various industries are able to establish further preferential rates, how then does that contribute to the principle of uniformity that is sought to be accomplished by this system?

Mr. WITTE. To a slight extent it is a deviation from uniformity, we will grant you that.

Mr. COOPER. It may be slight and it may become greater as the preferential rates are granted various industries throughout the country. Is not that true?

Mr. WITTE. Under the plant-reserve system, it probably will not be very great because the number of plants that will build up a 15-percent reserve through these contributions is probably very small. Through varying rates in the States it may become in time quite material, but there is a great deal to be stated for varying rates. It is, after all, a pretty crude system. We will frankly acknowledge that: It is a pretty crude system that levies the same rate of contribution on the bank as on the contractor. There is a different sort of a risk. As in all types of insurance, we do try to measure the risk. Frankly, in course of time it may be that the Federal Government should impose different rates on different industries. We now are not in a position to do that, because we do not know; we have not had enough experience even to begin to do that. This is all in the future.

Mr. COOPER. Just on that point, you use the illustration of a bank and some industry. What I have in mind is the same industry operating in different States, for instance, the illustration you have repeatedly used, of the electrical-appliance industry. Assume that one State of the Union allows a preferential treatment to the part of that industry operating in that State, and another State does not allow a similar preferential rate to a branch of the same industry. It occurs to me that you strike very vitally at the principle of uniformity that is sought to be accomplished by the imposition of this Federal tax.

Mr. WITTE. Frankly, that is a departure from absolute uniformity, and you can either be for or against it. This General Electric Co. which we have been using as an illustration, by regularizing its employment, by having little unemployment, is relieving public expense for unemployment, and it probably is making a large contribution to keeping its employees at work. Instead of pursuing a policy of dropping its employees, the only way a concern can get this extra credit is through

consciously pursuing a policy, for instance, of distributing work in the slack times. This employer distributes work among its employees instead of throwing a part of its employees off on to the public for support. It is all a question of balance. It does depart from the rule of uniformity, of course, in this cost, but the employer is meeting another cost, undoubtedly, when he stabilizes his business.

Mr. COOPER. I get your viewpoint of it all right, but we are legislating for a long time in the future here. I may be unduly apprehensive, but I can see how in the course of time there is the opportunity for considerable special favors being granted in this very system here.

Mr. HILL. This 10 percent out of the 100 percent of the tax that the Federal Government collects in any event is, you say, to be used for administrative purposes?

Mr. WITTE. Yes, sir.

Mr. HILL. How is that to be divided between the State in the administration of its unemployment-compensation act and the Federal Government?

Mr. WITTE. In the first year we appropriate \$5,000,000. That is right now, in the first fiscal year, for which we will collect only in the second half of the year. That is less than 10 percent, but we do not need much money at the start. At the start you pay no benefits. The States are merely collecting contributions. You do not need a very large amount of money. That sum we divide, \$1,000,000 to the Federal Government and \$4,000,000 to be allotted to the States.

The next year after that, when you are already getting into the system, although you are not yet collecting, you are not yet paying benefits, you will have to set up additional employment offices and you will have to get ready for a system. We still keep that \$1,000,000 for the Federal Government, and we turn \$49,000,000 over to the States. That \$50,000,000 total represents about 10 percent of the tax that we would collect on the 3-percent contribution rate on the basis of employment the way it was in 1933. We will probably collect that in the first year, and somewhat better than that, assuming that all States act. Probably all States will not act, but the 10 percent is an approximation, the \$50,000,000 is an approximation to what you will probably collect under this 10 percent of the tax.

Mr. HILL. The idea is, then, that out of this 10 percent is to be paid all of the administrative expense by the States and the Federal Government?

Mr. WITTE. Ninety-eight percent goes to the States in the long run under the bill.

Mr. HILL. Ninety-eight percent? That takes a portion of the 10 percent that the Federal Government will collect.

Mr. WITTE. Yes; 98 percent of the 10 percent.

Mr. HILL. Suppose one or more States should not act in passing an unemployment-compensation law. The Federal Government will collect the total amount of the tax. What would it do with that from the State that has no compensation law?

Mr. WITTE. Put it in the Treasury of the United States to be disposed of by the Congress.

Mr. HILL. It does not have to be distributed out among the employees in other States?



Mr. WITTE. No; there is no such provision.

Mr. HILL. It is just held there?

Mr. WITTE. You can do with it as you see fit. You can use it for relief or for any other purpose that you wish. It is not held. It is put in the general funds of the Government.

Mr. HILL. Of course, 10 percent is put in the general fund, too, is it not?

Mr. WITTE. Yes; certainly.

Mr. HILL. The only special funds you have are the accounts with the different States?

Mr. WITTE. Yes. They are not appropriated by Congress at all. They are just trust accounts held by the Treasury.

Mr. HILL. Each State then is a territorial unit as to these accounts, and the account of each State is for the specific benefit of employers within that particular State?

Mr. WITTE. It is its own money; it is the State's money.

Mr. HILL. You say that in the case of the General Electric Co., for instance, where the State might allow an individual account, that constitutes a matter of bookkeeping for the State and not for the Federal Government. The Federal Government keeps one account with the State and no individual accounts with certain industries?

Mr. WITTE. That is entirely correct.

Mr. HILL. But they must have reports from these industries as to the credit they will be entitled to in order to know how much credit to allow them on the Federal tax.

Mr. WITTE. Of course, that is the way of it in the future. In the future if they are allowed a lower rate of tax, they, of course, will claim that, and the Treasury makes rules and regulations for the collection of the tax. The Treasury undoubtedly would require some evidence that they are permitted a lower rate under a State law.

Mr. HILL. Is this particular subject of this bill what you call "unemployment insurance?"

Mr. WITTE. As to the term "insurance", we deliberately use the term "compensation."

Mr. HILL. That is what I want to get, if you make a distinction between "compensation" and "insurance."

Mr. WITTE. They are used interchangeably, of course, but in the last analysis, unemployment insurance is not insurance of the same type as other types of insurance. I think everybody must concede that. It is not that primarily because its past experience does not give us much of a guide to predict future unemployment. Life insurance is insurance in a strictly technical sense, because we can compute what life expectancy is. At this time we do not have even past statistics that are half-way adequate. In course of time we will have past statistics. But experience has been that at least so far nobody can tell with absolute exactness or even with approximate exactness on the basis of past unemployment experience what the unemployment will be in the future. It is not strictly an insurance concept.

Similarly, we regard it as very, very closely parallel to what we have called "workmen's compensation"—which is really accident compensation—somewhat more predictable than accident compensation; yes; but it is a limited benefit as a statutory right, which has features of an insurance plan, but more technically I think should be called

"unemployment compensation", rather than "unemployment insurance." Popularly, of course, the two terms will be used as synonymous.

Mr. HILL. Under this bill, is there any provision that affords any assurance that a particular State will pay the unemployed within that State according to any plan of compensation? In other words, will it be a flat rate or will it be determined as a certain portion of the wage that the employee has customarily received?

Mr. WITTE. Theoretically you can have a flat rate, as in England. In this country nobody has proposed unemployment compensation on any other basis than a percentage of the wage. We leave wide discretion to the States to do what they see fit in this matter. I think that you need not worry much that the benefits will not be liberal enough. The danger will be that with the small amounts with which you start out the benefits will be higher than the States can afford to pay. That may be a danger. The report of the committee asks caution in that respect, that we first build up some funds before we become too liberal with these funds.

But we have this hold: One of the conditions of allowing the credit to the State is that it spend all this money for this purpose, every dollar which it collects for compensation. It cannot use it for anything else. And we have the money in the Treasury here. The Secretary of the Treasury is given express authority to make such rules and regulations as he sees fit to make certain that the money is being spent for compensation.

The actual benefit rate in this country probably will be a percentage of wage. This subject is not new; I think your committee considered a bill very similar to this last year and it has been considered in State legislatures. The subject has now been before State legislatures in most of the States. It has been repeatedly before State legislatures in many of the industrial States annually, or at each session of the legislature since practically 1921. All bills in this country have contemplated a payment at a rate of wage ranging from 40 to about 65 percent, something like workmen's compensation ranges, with a maximum limit. We suggest that on the basis of the whole experience throughout the country. We suggest that you have a 4 weeks' waiting period; that a rate of benefit be paid of 50 percent of the wage, not exceeding \$15 per week, and not exceeding a maximum period of 16 weeks, except that you may allow additional credits for people who have been long employed without drawing any benefits.

That is for the average of the country. In a model State bill that we are preparing, we are putting in a clause saying that the States may depart therefrom. This is the situation, that unemployment has differed very greatly in different States. For instance, it is very easy to understand that the District of Columbia, which has the type of industries—stores, laundries, and so forth—in which there is relatively little unemployment, can pay a much more liberal benefit than can, let us say, a coal mining State. The coal-mining States cannot afford to pay as liberal a benefit as the District of Columbia.

Mr. HILL. What I want to get at is whether it is any concern of the Federal Government under this bill whether one State should have a flat rate of compensation or another State or other States

should have a wage percentage base of compensation, so long as all the money to the credit of each State is spent for compensation.

Mr. WITTE. No, sir.

Mr. VINSON. That is exactly the point that I want you to develop. This is levied under the taxing power of the Federal Government, and that rate is one rate, either 1, 2, or 3 percent of the pay roll. Is that correct?

Mr. WITTE. Yes, sir.

Mr. VINSON. Wherein is there any power in the Constitution to say that a State shall have unemployment insurance laws that would levy a 3-percent tax upon pay rolls in that State, and then another State could have laws that would in effect say, "We will levy 3 percent on most of them, but here are some particular few that may be able to build up reserves; they can get off with 1 percent." Now, justify that constitutionally.

Mr. WITTE. I would prefer to refer that question to the Attorney General, who I believe will appear before you.

Mr. VINSON. What is your judgment about it?

Mr. WITTE. My judgment is that it can be done. We have a case of the Supreme Court that seems to be directly in point. That is the case of *Florida v. Mellon*.

Mr. VINSON. That was an income-tax case.

Mr. WITTE. An inheritance-tax case, in which your act, which is still in effect, provided that the amounts payable under the Federal Estates Act shall be reduced by the amounts that have been paid under a State inheritance-tax law.

Mr. HILL. Let us defer this until after the recess, and I will yield to you further.

Mr. COOPER. There is the roll call now.

Mr. HILL. I move a recess until 2 o'clock.

The CHAIRMAN. Without objection, the committee will take a recess until 2 o'clock.

(Whereupon, at 12.20 p. m., a recess was taken until 2 p. m., Jan. 12, 1935.)

#### AFTER RECESS

Upon the expiration of the recess, the hearing was resumed.

#### STATEMENT OF DR. E. E. WITTE—Resumed

The CHAIRMAN. The committee will be in order.

Dr. WITTE. I believe that I was still open to questions on unemployment compensation.

Mr. VINSON. I had a question, and I do not recall whether you had answered it to your complete satisfaction.

Dr. WITTE. No; I had not. The question, I believe, was a question of constitutionality, on which I profess I do not pretend to be an expert, but it is my belief that the constitutionality of this act is governed—

Mr. VINSON. I do not think that you ought to take a broadside of it. It is not the constitutionality of this act but of this particular feature; that is, the constitutional point involved is whether or not you can levy a tax of 3 percent on pay rolls, a Federal levy, and then permit a State, under a State law, to say that certain privileged



business, or certain business coming under the purview of that statute, would be exempted from paying 3 percent, which otherwise would be the universal rate.

I think that that is the constitutional point.

Dr. WITTE. The question you have is on the constitutionality of the additional credit provided.

Mr. VINSON. That is the point.

Dr. WITTE. On that point, I could hardly qualify to speak. I think the advice that the committee has is that the act is constitutional; but let me also call your attention to this fact—that that is a clearly separable provision of the act, and if that additional credit provision is invalid, it would not affect the constitutionality of the entire act.

Mr. VINSON. I know you well enough, having worked with you to know that you would not want us to have a clause in here that we thought to be unconstitutional.

Dr. WITTE. No. If you think it is unconstitutional, you should take it out.

Mr. VINSON. If I understand it, you do not care to express yourself further on that point?

Dr. WITTE. On the general proposition of a credit as an offset of amounts paid, the credit of amounts paid under a State law against a Federal tax, I think that that is controlled by *Florida v. Mellon*. Whether you can allow an additional credit of the amount not paid is a different question, I grant you.

Mr. VINSON. Let us discuss the matter of policy. Mr. Cooper this morning raised the question of uniformity in respect of this credit feature. I would like to ask you what you think about the question of certainty of payment of the unemployment compensation if you permit these private accounts to be set up?

Dr. WITTE. That is the idea of the 15-percent reserve. With a 15-percent reserve, the plant accounts will undoubtedly pay them in full. Once we have a 15-percent reserve, theoretically that is only 75 percent of the possible maximum liability.

Mr. VINSON. You say 15-percent reserve would be 75 percent—

Dr. WITTE. Of the possible maximum liability.

Mr. VINSON. What about the real maximum?

Dr. WITTE. The real maximum is less than 75 percent in any actual period. It would never happen that all of the employees would be discharged at once and that every employee would be entitled to the maximum compensation.

Mr. VINSON. But suppose that a plant burns and immediately stops operation; then you would have 100 percent unemployment. Would you not have your maximum, then?

Dr. WITTE. No. You do not have the maximum, for several reasons. In the first place, some of those employees will get employment elsewhere and, of course, compensation stops that minute. Likewise, some of the employees would already have exhausted part of their benefit rights before that. Under all compensation systems ever proposed anywhere, there is a ratio between benefits to periods of employment. The usual ratio is 1 to 4; you can only draw benefits on the ratio of 1 to 4 of employees, 1 week of benefits for 4 of employment.

Mr. VINSON. You have some additional benefits in here, if the man has worked 1, 2, 3, or 5 years additional, have you not?

Dr. WITTE. Yes.

Mr. VINSON. But if you build up a 15-percent reserve, you feel that there is no question about this certainty of coverage?

Dr. WITTE. I think there is none in practice.

Mr. VINSON. Have you told us how much pay-roll tax 1 percent would be, annually?

Dr. WITTE. On the present pay rolls, approximately \$200,000,000.

Mr. VINSON. Would it increase the proper ratio at 2 percent or 3 percent?

Dr. WITTE. Certainly; and, as employment improves, that amount will increase.

On the pay rolls of 1929, a 3-percent tax would have amounted to \$1,000,000,000.

Mr. VINSON. I believe you said that in the administration of it you would have some group that would hear complaints. Is that correct?

Dr. WITTE. You mean, the actual administration?

Mr. VINSON. Yes; hear complaints of employees in respect to claims for benefits under the law.

Dr. WITTE. This Federal Act provides that there must be a fair trial procedure. The usual provision in bills proposed in this country is that, at the time a man loses his employment, he goes to an employment office and registers for other employment, and if he does not get employment within the waiting period, then he becomes eligible for a benefit.

But suppose that the employment office says, "For some reason or other, although you claim that you are employed, we have a report here from the employer who says that you really never worked for them," or something of that sort; that man is entitled to a trial. The appeal procedure provided in this country in bills pending here is either one of two methods: One, the method of the Workmen's Compensation Act, a hearing before a referee, a single person, or the other trial procedure; the one written in the Wisconsin law, which is a procedure in which there is a local board (and that is the procedure of the British act), in which there is one employer member, an employee member, and a neutral member. In England that board is made up of a panel of employer and employee representatives, and in England usually the neutral member is a permanent official.

Mr. VINSON. What method have you adopted in this bill?

Dr. WITTE. We simply prescribe that the Federal administration must be satisfied that there is a fair trial procedure.

Mr. VINSON. You think you prefer to set that up by regulation rather than by legislation?

Dr. WITTE. I think it will certainly vary, the sort of trial procedure you need in the varying conditions of this country. In the remote areas of our rural western States, the sort of procedure that you can have is quite different from the one that would work in a large metropolitan center.

I think on that, as on many other provisions of law——

Mr. VINSON. What do you mean by that? That is a general statement. What do you mean by "different", when you come down to a claim for money from this insurance fund?

Dr. WITTE. In the State of Montana you have stores—you have places employing people that have 4 or more employees that I think are 20 or 30 miles from any other place, and in New York City you have a very different sort of a condition.

Mr. VINSON. Of course, we all understand that.

Dr. WITTE. Yes.

Mr. VINSON. Now, in regard to your board that administers it, you will have that done, generally speaking, under State law?

Dr. WITTE. Yes.

Mr. VINSON. And it would most probably be in the capital or more convenient centers?

Dr. WITTE. Certainly the hearing of these cases should not be in the State capital. The amounts of money involved are small, and those employees should not be compelled to go from one end of the State to the State capital.

Mr. VINSON. Did you think that anybody would want that done?

Dr. WITTE. No.

Mr. VINSON. What I am trying to get at is whether or not it is contemplated that there would be any appeal to the courts, or whether this board or commission or what not would have the final say?

Dr. WITTE. It cannot have the final say under our American system. There can be an appeal to the courts, finally.

Mr. VINSON. Let us see about that. Take your Workmen's Compensation Board. So far as facts are concerned, they speak finally.

Dr. WITTE. So far as facts are concerned.

Mr. VINSON. And so far as some of the States at least are concerned, the only way that you can get into court is through error of law. You do not contemplate that the employer could take the employee into the courts?

Dr. WITTE. No.

Mr. VINSON. To determine whether or not he would have these benefits?

Dr. WITTE. All bills propose substantially the same sort of provision in regard to appeals to the courts that are now in the Workmen's Compensation Act.

Mr. VINSON. Where is the section in this act that says anything about appeal?

Dr. WITTE. Fair trial procedure—it is in this in this section 407, on page 30, which reads:

(3) Unemployment compensation is paid as a matter of right and in accordance with the terms of the State unemployment-compensation law to all persons eligible thereto under such law, and that all persons whose claims for compensation are denied are given a fair hearing, before an impartial tribunal.

That is the provision.

Mr. VINSON. Does that say anything about appeals to courts?

Dr. WITTE. No. It is up to the State.

Mr. VINSON. As I caught it, this impartial tribunal might be the board or the commission—is that correct?

Dr. WITTE. Yes.

Mr. VINSON. In other words, certainly we do not want to have a bill here that would permit hardships and injustice practiced upon employees who are making claims for the benefits under this bill.

Dr. WITTE. This is a condition which must be met in order to get any of the administrative funds—in the last analysis, of course, this

bill contemplates that the social-insurance board will do its duty and actually carry out this provision, that it will not give any allotment to any State which does not have a fair trial procedure. We are not doing just as in workmen's compensation; in some States on this matter it is provided that the appeal to the courts may be had only on matters of law, and some States say that questions of fact shall be binding if there is credible evidence in the record to support the findings. I think the State constitutions differ as to what may be done in that respect, and this social-insurance board is not going to permit a method of procedure which denies a man a fair opportunity to have a hearing, or denies an employer a fair opportunity to test.

Mr. HILL. It will be within the jurisdiction of the State to provide this forum for determining the rights of a man who feels that he has not been justly treated?

Dr. WITTE. Certainly.

Mr. HILL. And in the social welfare board?

Dr. WITTE. Insurance board.

Mr. HILL. That board will pass on the sufficiency or adequacy of that remedy afforded by the State for a just and fair trial?

Dr. WITTE. I think no unemployment compensation bill that has actually been presented in this country has been questioned on this question of fair procedure. I think that you can trust the States to enact laws on that point that will be fair.

Mr. VINSON. According to that, we might leave out several provisions here in the bill, if we want to entrust it to the States or to somebody else, but we are writing this law; we are saying what we want the States to do, and after we get through with this, and this becomes a law, then we will have lost our opportunity to say just how we want it done.

Dr. WITTE. I think, if I may be permitted to say something on that point, that the general theory here is that there is no reason for suspecting that the States will not pass laws that are decent.

Further, we have this, that the States will pass their laws before the Federal act takes effect. If there should be State laws that are utterly unfair, we have a club here; we won't give them the administration fund, and they won't be able to administer the fund at all unless they dig into their own pockets to pay the administration cost. They cannot use the unemployment compensation fund for that.

Mr. JENKINS. But supposing that the State changes the law after you have started your operations under this bill?

Dr. WITTE. If you will look at paragraph (b) on page 31, you will see that it says that if a State fails to live up to these conditions, that payments can be stopped, even after allotments have once been made.

Mr. VINSON. I call your attention to pages 38 and 39, that deal with the unemployment trust fund. As I read the language on page 38—

The fund or any part thereof may be invested or reinvested in any primary obligation of the United States or in any obligations guaranteed as to both principal and interest by the United States.

Now, over on page 39, line 7, it refers to—

Every other obligation acquired for the fund shall be acquired on such terms as to provide an effective investment yield which shall be not less, by more than one-eighth of 1 percent, than such average rate.

When I read page 38, I am led to believe that the investments are to be in governments; is that correct?

Dr. WITTE. They are entirely in governments.

Mr. VINSON. What does the term "every other obligation" refer to, in line 7 on page 39?

Dr. WITTE. The explanation is the intervening sentence between those two, which contemplates that the Secretary of the Treasury shall have authority to issue a special type of security which will bear interest at a rate equal to the interest rate on primary obligations of the Government. Then it says "every other obligation", and that means other United States securities, or, for instance, the securities guaranteed by the Government, of the Home Owners' Loan Corporation. They can be purchased on the open market by the Treasury, or the Secretary of the Treasury may issue a special series of obligations for this type of security, but, in any event, the only type of security in which the money will be invested is a primary obligation of the United States Government or an obligation that is guaranteed as to both principal and interest by the United States Government.

Mr. VINSON. Then the word "obligations" in line 25, on page 38, does not refer to what now might be termed as Government bonds, but that obligation is a special bond that would be issued for this particular purpose?

Dr. WITTE. That is my understanding of it, and that this section, as I said, was written by the Treasury Department, and I think the Treasury Department will be glad to explain the details.

Mr. VINSON. One further point in connection with the duties of the Secretary of the Treasury, to find outlets for Government bonds at the lowest rate of interest as Secretary of the Treasury, and then this obligation, that he is to invest these funds at the highest rate of interest.

Dr. WITTE. This is not the highest.

Mr. VINSON. Is there any chance for conflict there, between those two obligations?

Dr. WITTE. There is no obligation that he shall invest them at all, and the interest rate is not the highest. It is the average rate, adjusted to the next lower one-eighth of 1 percent, as this bill says.

Mr. VINSON. I know, but, Doctor, this unemployment trust fund certainly is intended to be invested; is that right?

Dr. WITTE. Within limits.

Mr. VINSON. Not within limits. It is intended to be invested, is it not, and it is intended to be invested by the Secretary of the Treasury, is it not?

Dr. WITTE. I would like to explain the whole thing in a moment.

Mr. VINSON. I would like to have you answer the question, instead of circumnavigating the globe.

Dr. WITTE. All right. The real effect of this whole section is that this unemployment fund should be employed to help stabilize credit conditions, rather than to unsettle them. I can illustrate what I mean. What is the theory of this thing? Let us look at the twenties. Let us assume that in the twenties this sort of a law had been in effect by, say, the middle twenties especially by the year 1928, when it was becoming very evident that there was over expansion of credit.

At that stage the Secretary of the Treasury, controlling these funds, might very well not have invested them at all; he probably should not have, but held them in cash to pay this interest obligation.



On the other hand, now, let us take a year later, when the depression set in, in October 1929. At that stage these funds would be drawn on, because they would be unemployed. This contemplates that the Secretary of the Treasury, through the control of these funds, instead of using them on the markets at that stage, can himself, take them up so that the money will actually be used to maintain stability rather than the reverse.

Now, this does not imply that the Secretary of the Treasury will at all times keep these funds invested. There may be occasions when he will not wish to have them invested, when the best thing that he can do with them is to maintain them in cash. That is in a period when you wish to check credit inflation.

This total amount involved is not so very great. As I stated, our calculations indicate that on a 3-percent rate, by 1929 you would have had a fund slightly higher than 2 billion dollars, but that amount, thrown into the markets in 1929, would have had a most disastrous effect; it would have offset the entire open market operations at that state.

Mr. VINSON. If you would, I would like to have you come back to my question, and before you answer it I would like to read certain lines here in the bill, on page 39, beginning with line 10, where it says—

It shall be the duty of the Secretary of the Treasury to invest as herein provided such portion of the fund as is not, in his judgment, required to meet current withdrawals.

Where do you get his right to leave that fund static, because your computations are figured on a 3-percent compound-interest basis.

Dr. WITTE. No.

Mr. VINSON. Do you not take into consideration the increments from interest?

Dr. WITTE. Increments from interest, certainly—do you mean on interest earnings?

Mr. VINSON. I am talking about this unemployment trust fund, this earning on interest. If the Secretary of the Treasury is not going to invest this, why is there that imperative language, mandatory language, saying that "It shall be the duty of the Secretary of the Treasury to invest as herein provided", and if he does invest that money, is it not his obligation to get the rate of interest that that money should earn?

Dr. WITTE. The rate of interest is no problem at all. The rate of interest that he has to earn is stated in the act as follows:

Shall bear interest at a rate equal (after adjustment to the next lower multiple of one-eighth of 1 percent) to the average rate of interest payable at the time of such acquisition upon all primary obligations of the United States.

He certainly can maintain the average rate of interest.

Mr. VINSON. And it is the obligation of the Secretary of the Treasury, in the performance of the duties that now devolve upon him; which will continue in the administration of this act, to get the lowest possible interest rate on loans made to the Government or in the purchase or sale of Government bonds?

Dr. WITTE. This might be, that at the most the point you would make is that the United States Government here adopt a slightly different policy with reference to this fund for the purpose of safe-

guarding these funds and in having this money to be used in such manner that it will not upset credit conditions.

Mr. VINSON. It looks to me like there is some conflict there in the duties that the Secretary of the Treasury will be called upon to perform.

Mr. HILL. In the event that a certain portion of this fund is not invested, and it lies as cash in the Treasury, does the Government pay interest upon that?

Dr. WITTE. It does.

Mr. HILL. If so, at what rate?

Dr. WITTE. It pays this rate, that you are adjusting it to the next lowest one-eighth point.

I might add that the Treasury Department advised us on this, and I think that they can explain it to your satisfaction.

Mr. COOPER. Just one question before you step aside, please.

What is the waiting period that is contemplated under this act for the unemployment insurance to become effective?

Dr. WITTE. You mean the waiting period after a man loses his job?

Mr. COOPER. I mean the waiting period for the system to become operative.

Dr. WITTE. The Federal act will take effect January 1, 1936. The first tax would be collected under the Federal act in 1937 for the year 1936, and we have a clause in here that no benefits shall be paid under a State law for a period of 2 years after these contributions begin under that State law. That is for the purpose of building up some reserve fund, so that you have a reasonable opportunity to maintain that fund.

Further, we have in mind that the rate in the first 2 years may be 1 or 2 percent, so that you are accumulating very little, then. So that the State that starts off with the Federal act January 1, 1936, has the situation that benefits under that act would not be payable until 1938.

Mr. COOPER. That 2-year waiting period is contemplated under all State acts?

Dr. WITTE. We require that there will be that provision of State law. The State of Wisconsin has an act now, and it is collecting contributions that started January 1, 1935, and it could conceivably start paying benefits on January 1, 1937.

The CHAIRMAN. At this point, we would like to have a recess in your testimony, and we will ask that you hold yourself in readiness to resume it. I think that you might be excused for the day.

In accordance with the previous understanding, the Secretary of Labor, Madam Perkins, is here now, and the committee will be honored and delighted to have her present a statement to the committee. She had had much to do with the preparation and consideration of this bill, and we are all delighted to have the Secretary of Labor, Madam Perkins, come forward and present her statement.

Mr. HILL. I move that the rule heretofore adopted by the committee with reference to the statement made by Mr. Witte apply to the statement by the Secretary of Labor, in other words, that she be permitted to finish her statement to the committee without interruption by questions from members of the committee, and that after she has finished her general statement, that the members of the committee be permitted to ask her questions.

The CHAIRMAN. Mr. Hill moves that Madam Perkins, Secretary of Labor, be permitted to make her main statement without interruption, after which she may yield to the members of the committee for such interrogatories as they may see fit to propound.

Without objection, it will be so understood.

### STATEMENT OF HONORABLE FRANCES PERKINS, SECRETARY OF LABOR

Secretary PERKINS. Mr. Chairman, I thank you very much for your courtesy, and I wish to say that I understand that Mr. Witte, who has been acting for the whole committee in studying all aspects of this matter, has made a very full statement to you in the course of your hearings yesterday and today, and many of the details have been covered by him.

I shall therefore try to make my general preliminary remarks brief, in order to expose myself as fully as may be desirable at this time to any questions which you may have in an effort to arrive at a common understanding.

First I want to say to you that I am deeply appreciative, as are the other members of the committee which had this matter under study for a number of months, of the interest and attention which the members of your committee have given to this very important and very significant legislation, and we are deeply gratified that there has been a full attendance of this committee for these days, and such profound and honest and conscientious attention to detail.

I dare say that Mr. Witte has told you that last June, following the President's message to Congress with reference to the broad general hope that a program of social and economic security might be embodied in legislation within this year, he appointed a committee of members of his Cabinet, together with the Federal Administrator of Relief, who had special knowledge of these subjects, and asked them to consider in any way they thought best the general recommendation that he had made to Congress, and to attempt to work out plans and recommendations which could properly be embodied in legislation by the Congress for the carrying into effect of the general aspirations which he had.

Following his appointment of this committee, we consulted very seriously as to the best and most practical, and most economical method of operation, in order to clear our own minds as well as the minds of others of a large number of conceptions, some of which were proper and some of which were merely personal prejudices with regard to what kind and what form of legislation we should have in this country, looking to the building up of a system of social and economic security.

In order to make quite practical and quite realistic our approach to the subject, we determined to build up a small staff of people who were particularly expert in some phase of the matters treated, in order to ask them to work out the details of certain plans.

You will understand that in the consultation of any experts, one must always recognize that among the experts there will be wide differences of opinion, and I think that you have found that out if you have ever had the necessity of consulting experts, either with regard to the proper medical treatment in a case of serious illness, or with regard to the proper engineering treatment of a bridge or a structure which it was desired to build, or repair, or replace.



So that we went into this with the full knowledge that we should get from the different groups, from the different expert minds, different points of view, but that we would primarily get from them a canvassing of all of the hazards, of all of the reasons that were involved in any particular form either of insurance or of social provision to meet social hazards, and we were not disappointed.

We had a very vigorous, a very interesting, a very alert group of people who went over the various subjects of old-age security, of security against unemployment, of security for dependent children against the more devastating aspects of their insecurity and dependence, and of the problems that are created by ill health and invalidism; and we had a very thorough canvass of these matters by people who know their business of all of the aspects of the problems in each of these fields.

That the experts did not agree I think will not be any news to you who have dealt with experts in the past, and it was no surprise to the committee, nor was it a disadvantage. It was, rather, extremely helpful to the committee that there emerged differences in point of view, although when it came down to the actual designing of a structure to carry a desired load, the experts more or less agreed as to what the structure ought to be, in terms of finance, in order to carry the load which it was designed to carry.

This committee has felt, if I may say so, sir, that it was primarily the duty of those who are elected by the American people to determine the policy of the American people, and, as to those who are directly appointed by them to undertake some piece of work, it was their duty to determine what particular form and what particular policy should be adopted by the United States, and that it was therefore the duty of Congress and of the President rather than of the experts to say what final form these programs should have, and the experts have been of extreme importance in enabling the committee to come to conclusions which we at this time believe, so to speak, are reasonable, are flexible, and are within a pattern which is adapted to our form of government, to our structure of Federal and State organizations for the administration of government, and it is, on the whole, reasonably economical, so that we may hope to carry this structure financially without making too great inroads upon the private purses of individuals contributing to the maintenance of this structure.

As you will realize if you have read the report submitted by the President at the time he delivered his message to you last week, as well as from a study of the bill, the bill itself which is before you presents the results of the canvass which has been made on the subjects of insecurity due to old age, and that we have treated in two definite parts, recognizing that for those who are already old and needy and having no other means of support, a particular form of provision to meet the needs of their old age will have to be devised, but that for old age in general, that is, the probable old-age dependency for persons not now old, but who are young or of middle age, we can hope to put that structure upon a relatively self-supporting basis, and to consider it as a type of insurance, whereas with regard to the care and provision of income to those now old and without means of support, we cannot expect to put them upon an insurance principle, since there is no way by which a premium can be collected in advance from those who have already reached the years of hazard.

So that old age security has been treated in this report realistically enough in two separate ways, first, and what is the most practical, effective, and at the same time economical, a method of taking care of those who are already old and needy in this country, and a second provision has been an effort to provide a secure and systematic method of providing for the old-age necessities of persons who are not now old, who are young and of middle age and in the midst of their working years and therefore theoretically able to contribute to the funds which will be used in the future, as a matter of contractual right, and provide them with some small but certain income when they are old and past the working years.

The second subject which has been treated in this committee, and by those who have advised the committee, is the subject of unemployment, unemployment which in all of these recent years has come to seem to all of us the one unexpected factor in everybody's life which may serve to accentuate the insecurity due to old age, the insecurity due to illness, the insecurity due to dependent children, and all of that sort of thing.

We have recognized that in treating unemployment as a hazard, we must devise a system of providing in advance against the hazards and against the insecurity of unemployment, a system which is practical, which will be based upon the idea of paying some definite percentage of the usual wage to those who have been regularly at work, and that it will also bear some relation, if it is to be insurance at all, to the amount of time in which they have been regularly employed in the years previous to their unemployment.

That is the second subject which we have covered, and we have also covered, because it is a great source of insecurity, the provision for dependent young families.

As you realize, all over this country there have been in recent years provisions made in some States, and sometimes in cities, for what are ordinarily called mother's aid or mother's pension arrangements. Both in the States and in the small localities, there has been the acceptance of the idea that, on the whole, the best thing that we can do for children who are deprived of their natural breadwinner of the family is to keep them together in a family relationship, and not to deprive them of the rearing and the education which is the best possible, according to human experience, which goes on within a home and under the care of someone who is related to them by ties of blood and moral responsibility.

Therefore it has been thought wise at this time to make general those systems that aid dependent young families which have been brought out successfully in some of our States and some of our localities, and there is, therefore, a provision in the bill before you for appropriations to supplement those already made by the States and those which may be made by other States in the future, so as to encourage and develop the system of caring for dependent children, allowing them to be cared for in their own homes and under the supervision of those who are their natural protectors and guardians.

This has not only proved to be the most satisfactory way of providing for dependent children from the point of view of the moral, the ethical and the social principles involved, but it has proved to be vastly the most economical method of caring for them from the point

of view of the States' interest in keeping their general tax expenditures as low as possible.

We have also treated in this report, and have considered, the particular hazards of business, and the particular costs and economic insecurity which the incidence of illness may bring to a family who are depending upon a modest income and the wage-earner's earnings for their support during his adult life, and we have recognized, first of all, as all of you who have examined the social life of your communities must have recognized, that in this possibility of illness to the bread winner, or illness to a child, or illness to some important member of the family, there often lies the complete destruction of the economic security of that particular family, that the savings that were saved to go toward the education of the children, or even toward the old age and future life of the family are diverted to take care, sometimes in a very awkward and uneconomical way, of the illness of a particular member of the family.

So it has been recognized that although we are not now in a position to recommend to the President, and through him to your honorable body, any definite scheme of health insurance, and we are not in position to do it because of the fact which is set forth in the report which has been submitted to you, that the Committee on this subject, which is largely composed of physicians, of dentists, and of hospital and nursing services, is not yet ready to report, we are, nevertheless, a unit in our belief that the further extension of the public health service of the States, under the supervision of the very efficient and able technical services of the United States Public Health Service, should be made at this time in order that we may prevent, through the activities of these public health services, the more devastating and costly forms of sickness to the low income groups of this country, and in order that we may, through the application of compelled medical and nursing services through this service, take care of incipient cases and so prevent the more devastating forms of illness, devastating in their economic sense, in the sense that they take the whole life savings, sometimes, of a family.

Therefore this bill and this report which are before you, in covering all of these forms of social and economic disaster, have recognized that it is not possible at this time to recommend a 100 percent system which is guaranteed to be a panacea against every form of social insecurity, and we recognize that, if I may say it, quite as fully as anyone else.

We have felt that it was right and proper at this time to recommend to you the basic plan which could be built upon and expanded in the future if and when experience accumulated under these rather small but substantial, orderly and systematic methods, and if and when it seemed that that experience indicated that there should be an extension in this or that or the other line.

In other words, I think that our American way of thought, and the way of carrying on our Government's business, is to try a few procedures where they can be kept under close supervision and where the results can be annually reported upon to Congress and to State bodies, and to submit those for the scrutiny of the people, and to build only as we know that there is demand and need and successful experience to guide us in the line in which we would build.

As I say, we are therefore conscious that this program is not 100 percent perfect, but we are fully of the belief that it covers the major hazards—the major social and economic hazards in American life today—and that it will provide a substantial basis of security to the families in the low-income group of the United States of America, and that it will furnish an experience out of which we can gradually develop whatever further activities and appropriations are needed.

In other words, we have been glad to be able to find a small and reasonable method to recommend to you, rather than to ask you to plunge into too large a program before it can be adequately canvassed.

You will realize, of course, that the two newest items in this program, and I say “newest” from the point of view of the experience of the United States of America, are the programs which deal with old-age insurance and those which deal with unemployment insurance or unemployment compensation, as we call it in this report, and as has been referred to in the bill before you.

The provision for pensions for those who are now aged and indigent is not new in American life. Twenty-eight States already have some form of old-age pension, but these forms are very different, the allowances are different, and in some States, as you know, they rely upon the counties to pay out of county funds the pensions to the aged, but in some States in which they have relied upon the counties the State law itself is not mandatory upon the counties, but merely permissive.

So that there is no regular practice, even in those States in which they have old-age pension laws, and certainly there is no uniformity of practice between the States.

It seems unfortunate that there should be such a difference in the benefits which an aged and needy person is entitled to or is likely to get merely because he lives on one side or the other of a State line, and there has been, I think, a growing recognition in this country that it is desirable to regard the old and indigent—that is, those who are aged and needy at this time—as deserving of a systematic form of allowances which will enable them to keep soul and body together.

The device which is proposed in this bill, and which has been recommended in this report for those who are now 65 years of age and over, and who have no proper provision and can make no proper provision for their old age, is a Federal appropriation to the States to match the States when they have compulsory old-age pension laws which provide the minimum of adequate benefit to the aged person during the years after he is 65 years of age.

Many of the States have the provision that applies at 70 years of age, but the committee recommended 65 rather than 70, because we have come to a realization out of our studies that industrial practices and habits of this country have come to the point where it is very difficult for a man 65 years old to get a job, even though he is physically well and physically able to perform the job.

You will realize that this recommendation for old-age pensions rests upon the conception that there is a free, noncontributory pension in any amount which represents the sum appropriated by the State for that case, and the sum matched by the Federal Government in that case, provided only that the standard of pension is high enough to insure a decent standard of living for the indigent, aged person, and the Federal Government has limited itself to an appropriation of \$15 per month per case, not with any attempt to limit the State in the

amount each State may appropriate above \$15 for the same case, but merely to fix a bottom, so to speak, to what the Federal Government may have to go to in dipping into the tax funds which are available to it; and that \$15 was chosen because \$15 by the Federal Government, plus \$15 by the State, would make \$30 per month, which, in general, is about as high as most of the now-existing State old-age pension laws go.

There is nothing to prevent the States from making the appropriation more than \$15, if necessary, if the State is in position to do so and thinks it is wise and desirable under its particular demands, but it seemed to us at this time wise and essential to keep the limit of the Federal Government to \$15, at least until we have had more experience under it and know just how much it will cost.

Even so, we know that the cost will probably be rather large. There are at present, as we gather from our Census statisticians, six and a half million people in this country who are 65 years of age and over. Something like 700,000 of these six and a half million are already on the relief rolls of the Federal Government, through the F. E. R. A., and over one hundred thousand more, somewhere between one hundred thousand and two hundred thousand more, are receiving pensions from other sources, sometimes from trade unions or mutual benefit groups to which they have belonged or other pension plans, or of one sort or another.

That brings us to the conception that there are probably about one million people at this moment over 65 years of age who are dependent on and who are receiving some aid and benefit either from pension funds or from public relief allowances, and there are, as you all know, probably another million, and this is a guess—we have no authority for this; it may be a guess which is too high or too low, but probably too high—there is at least another million who are dependent upon their children and upon their grandchildren and nieces and nephews, and upon their remote relatives and friends. In other words, they are people who receive support from people who are not legally obliged to support them, but who are doing it as a matter of good will, or of friendship. So that there is a considerable number of aged persons in our population at this time.

The statisticians, and they know a good deal in spite of the fact that we laugh about them when they face us with very large figures, tell us that the population trends in the United States for the last 25 years have been such that we can conclude that over the next 10 or 20 years there will be a very large increase in the proportion of aged persons in the total population, that is, that the proportion of persons over 65 years of age will increase.

There are now something like 5 percent of the population made up of persons over 65 years of age, and in 25 it is estimated that they will constitute about 10 percent of the population; that is, for a great variety of reasons, there is likely to be a greater portion of aged persons in the total population then than at the present time.

Therefore, we must not look forward to this program of relief to the aged and indigent as being a program which will decrease in cost, but rather will tend to increase in cost, particularly because of the fact that persons who are now dependent upon youngish relatives who find great hardship in supporting them, will undoubtedly make



application for pensions and will prove themselves to be entitled to pensions if pensions become available in their States.

I say these things merely to distinguish between the program of old-age systems in the form of pensions to those now aged and indigent and the program of old-age insurance, which I understand Mr. Witte to have described to you in great detail.

When we come into the program of old-age insurance, we are dealing with a situation in which theoretically we begin with persons who are taking their first jobs, who are going to work at the age of 18, or of 19, or of 17, or 20, and who from the time when they go to work at their first job begin to make a small contribution, a small percentage of their pay, to a fund which will later be used to pay them an insurance benefit which they have as a contractual right when they become 65 years of age, and at the same time their contribution will be matched by a contribution of their employer's.

So that the proposal here is to begin to collect 1 percent of the pay roll in the case of every employed person, one-half of it being from the employed person and the other half from his employer, and that percentage should be raised gradually over every 5-year period until after 20 years the contribution is 5 percent—2½ percent from the employer and 2½ percent from the employee.

It is understood, and you will understand that people who are now under 30 years of age, and who will begin to contribute, we will say, in 1937, the date when we have recommended that this tax will begin to be collected—and, by the way, we have recommended that date because we recognized that the preliminaries of any administrative body in getting ready both to collect and to administer that tax will be very great, and that there must be some time allowed for organization and for the making of rules and regulations in order to have a proper and equitable administration; but if this tax begins to be collected in 1937, and persons who are now taking their first jobs begin to contribute, you will realize that each one of them, over their total working lifetime, if they work regularly and steadily throughout the 45 years between the age of 20 and the age of 65, will have made a substantial contribution and will have built up an insurance reserve in a great fund which will entitle him to collect this benefit. This will apply to practically everybody who is under the age of 40 at this time.

You could make a perfectly self-supporting system without any aid whatever from Government sources if you are willing to say that you will postpone the payment of benefits for 30 years or 35 years, but most of us want to see something done about those who are old or middle aged and approaching this crisis of insecurity in their lives before them, to contribute to the general pool of distress and suffering and lack of purchasing power which has precipitated and increased the industrial depression in these last 5 years.

Therefore, the committee, in considering what they should recommend to the President, and through him to your honorable bodies, became convinced that the right and proper thing to do was to treat people who are now between the ages of 30 and 60 as subject to a kind of a combination of earned benefit, and I used that term as they use it in insurance policies, the kind of a benefit which has been built up through reserves to which they have contributed during their somewhat briefer working period, plus an allotment sufficient to bring

that allowance in old age, at the age of 65, up to a sum upon which they can reasonably hope to live according to a good standard of living, and that that allotment should be provided for in some way by the Government.

Now, we have thought it best to recommend to you that the Government borrow from the contribution of those who are now young, in any one year a sufficient sum to pay this supplemental benefit to those who, we will say at the age of 50, can only build up a reserve that would entitle them, at the age of 65, to something like \$9 a month, and we have recommended that the Government borrow from the contributions, from the funds collected from the taxes and assessments of the younger members of the group, an amount sufficient to pay for the aged person who has only been contributing for a short time.

That, of course, is a matter of policy.

A self-supporting system in every detail can be provided if you are willing to fix the contribution into the fund at 4 percent instead of 1 percent, the 4 percent to be divided equally between the employer and the employee, with a gradual working up to 6 percent instead of 5 percent, and the time within which we go from 4 percent to 6 percent to be only 10 years instead of 20 years. In other words, if you ever buy insurance, it all depends on what you pay how much of a benefit you can receive, benefit in actual cash allowance or time of maturity. All insurance policies, particularly the endowments, have that feature, whereby you may increase the cash allowance or shorten the maturity by increasing your payments.

So, by increasing that contribution, you can build a system which will not only pay full benefits to persons who are now 20 to 30 years of age when they become 65, but will also pay not quite full benefits, but only slightly lower benefits, to persons who are now 40, 45 and 50, when they become 65.

But you cannot have such a system actuarially sound unless you are willing to face the fact of a pay-roll tax at this time or beginning, we will say, in 1937, of 4 percent instead of 1 percent. That, of course, is a matter of policy for this committee of yours, but in studying this whole matter, our Committee thought that it was wiser for us to recommend the imposition of a 1 percent pay-roll tax on the theory that we are now in a period of recovery, and that the lesser tax would be more suitable to the lesser industrial income, and because of the fact that in this period of uncertainty it would be better to have the 1 percent than the higher taxation of 4 percent.

But if we have this lower system of taxation at all, then it is necessary to realize, and to realize clearly, that we are borrowing every year from the funds contributed by the young, an amount sufficient to pay the pensions to those who become 65 years of age before they have contributed enough to the fund to give them what is known as an earned benefit.

Now, then, the income of this fund will be so great that it will be possible to borrow from that fund without making appropriations out of general taxation, to pay those who have become 65 years of age currently after the fund has begun to be collected for 5 years. It will be possible to pay them regularly out of the annual income from premium collections up until the year 1965, and remember that we are speaking about what the actuaries have contributed on their own

theoretical basis, and their science is a very particular one, which none of us is in position to criticize or question, but based upon their computations, we go along until the year 1965 before the payments out would begin to be greater than the income coming in from these contributions of the young working people. At the year 1965, there would begin to be an excess of payments out over income brought in, and at that time the Government would have to begin to repay to the fund the amount which it had been borrowing from that fund ever since 1942, would have to begin to repay those amounts, plus interest and compound interest.

Now, that is what makes that sum look so large when you begin to figure it out, this figuring of interest which I think most of us really never face until we come to deal with some large sum.

Of course, actuaries are not alarmed by these purely theoretical increases in the present value of cases, and they know that you can pay your claims out of income, and that you must steadily collect interest on your reserves, and if your interest on your reserves and your premiums keep up regularly year after year, you never touch your fundamental underlying reserve.

But in this case, you see, we have the credit of the Government as the real underlying reserve, and that is what gives this stability, and that is why it is safe to recommend that there be a borrowing from this fund only to pay the claims that mature before the persons who make the claims have contributed premiums sufficient to give them a totally earned benefit.

In other words, there will be for those who are not now young, but who are now over 40, a formula something like this, that their earned benefit will depend upon the age at which they began contributions. It may be \$2.50 or \$5 or \$9 or \$10 a month, and they will receive that, plus an allowance, which will bring their total receipts up to \$20 a month, \$30 a month, or \$35 a month, which I think is the most that we have estimated for those who are now 40 years of age.

In the meantime this other system of accumulating reserves for those now young will be going right on, so that there are three separate types of provisions being carried on at the same time; one for the allowance of pensions for those now aged and indigent; one a provision for a scientific, self-supporting scheme of insurance for those who are now young and who will pay in premiums over a long period of years sufficient to give them an earned benefit; and there will be that transition for the next 30 years, during which time we will have the problem of the constantly growing older of people who are not now at the beginning of their working lives, but half-way through.

I strongly recommend that you consider this transition system as being the one most likely to be favorable and satisfactory to the largest number of people and to the economic interests of this country, for to deny benefits to people who at this moment happen to be 40 or 50 instead of 65 or 20 would certainly create a sense of injustice which would be intolerable in a community such as this, and the provision for the use of the fund which would be accumulated over a period of 30 years by the contribution of those now young, a provision for utilizing that fund and plowing it back into income, to be spent by persons becoming aged, is a very sound and sensible pro-



vision in aiding purchasing power and maintaining our own internal market during this transition period.

It is, I think, a vastly more useful method, of putting that money to work, than to allow it to accumulate in a claims reserve in the hands of the Treasury. In other words, if it is to be used each year in the form of income by people who would otherwise have very limited income, it will be spent; one can be sure of that; and in its spending it will create that passing of money from one hand to the other, which in its total velocity does increase the annual national income.

So that I believe that as a result of this plowing back of those collected funds there will be a very wholesome effect upon the internal markets and purchasing power and, therefore, upon the total national income of the American people.

Now, I want to refer also, with particular interest and emphasis, to the recommendations which we have made in this report, and which are embodied in the bill which has been drafted by your members, with regard to unemployment compensation.

This Committee, in its study of the whole question as to how to provide security against unemployment, has recognized that unemployment is in many instances not controllable by the individual who has unemployment, who finds himself unemployed in the midst of a crisis, nor is it preventable in every instance by his employer, nor is it always preventable by any combination of the State government and Federal Government.

There are certain economic factors which all of us are familiar with which are not under the control of any political unit of the Government, nor are they under the control of individuals who profit by the industrial enterprises.

All of us have been faced with new relationships in life as the result of the introduction of new and labor-saving machinery, new methods of work, and we realize that it is for the economic advantage of the whole community for this device or machine to be introduced which tends in the long run to reduce the price of a commodity and therefore to make it more common and therefore to raise the standard of living of the whole community and over a period of years providing useful employment for more people.

But the transition periods are extremely difficult for the individuals put out of work.

Most of you have learned by your independent studies of this whole matter of unemployment, and we have also realized, that even in good years, years that we have been pleased in the past to call good, there has been a certain amount of unemployment, and that unemployment has been irregular, uncertain; uncertain both as to the amount and the place where it would fall, geographically and industrially, and that these periods of transition, even when there was a great demand for labor, have been extremely difficult for the individual who was put out of work by a change in his industry. A man might have been a highly skilled workman in some special line which is no longer necessary or needed in the industry to which he has been attached for many years, and the transition for him into some other form of work is sometimes very difficult; very difficult and very devastating.

Most people who have acquired a particular skill are inclined to hang on to the bitter end to that skill, and to strive almost beyond reason to find reemployment in the particular line in which they are skilled and accomplished. All of us do the same thing, and it is only sometimes after having exhausted a lifetime and spent all of one's personal resources and all of the borrowings from friends that a man finally accepts defeat and finds himself a job at, well, some gasoline station or something of that sort, doing some physical work for which he was not trained.

So that we have these transition periods sometimes falling very acutely upon individuals who have no defense against them.

The chief reliance, of course, of government by States and of the Federal Government in times of prolonged economic difficulty, has been the one that we have been going through in recent years; a program of public works available and adapted to many different kinds of labor, and in this report which we have made to you we have recognized that in these prolonged periods of depression there will always have to be reliance upon a public-works program to furnish employment to those who have exhausted any benefits that they may have had under any unemployment insurance, and also for those who are in this year 1935 out of work and who have had no provision made for their cash benefits during a period of unemployment.

We feel, too, that there must be a reliance upon a conscientious development and maintenance of a system of public works, or work relief, as it is sometimes called, so that they may have work in lieu of the cash benefit even for a brief period to which those who are now employed might be entitled if they should, upon a period of unemployment.

So this report depends definitely and relates definitely to a program which includes appropriations for public works; for providing employment assurance to those who are now out of work and have no possibility of coming under unemployment-insurance schemes; and also it depends and relates to the idea that there will in the future be kept up and maintained always a provision and a planning in advance of a program of public works which can be put into operation when a depression becomes so long that any considerable number of people are going without work beyond the period which is covered in the unemployment-insurance benefit which is provided for them.

But we think that there should be established a program of compulsory unemployment insurance, based upon a modest scale of collections of premiums, and subject to some experimentation as to the best and most standard forms by cooperation between the States and the Federal Government, and that this unemployment insurance should be looked upon as sufficient to provide for definite, contractual-right allowances which shall bear a definite proportion to the previous earnings and to the amount of the contribution which has been made to the fund.

Now, this form of unemployment insurance ought to be sufficient to carry the costs of recurring unemployment in seasonal fluctuations, to carry the costs of recurring unemployment that come about through some forms of technological change in industry. In other words, it ought to be enough to carry them over what can be said to be the expected and normal periods of unemployment in life; but

we cannot expect, unless we should assess a very large and, I really think, an uneconomical assessment in the form of a premium at this time, a fund large enough to cover every person who might be unemployed for a very long period. In every long depression, we should have to expect to resort to public works in the form of employment assurance as a supplemental benefit, supplementing the cash benefits which are a contractual right for the individuals for whom contributions had been made to this unemployment insurance fund.

I think there is a tendency in some quarters to underestimate the value of such provisions because, as we say frankly and honestly, it cannot provide against all of the unforeseen disadvantages of the individual, and that therefore it is not sufficient, but I think that the importance of providing purchasing power for these people, even though temporary, is of very great significance in the beginning of a depression. I really believe that by putting purchasing power in the form of unemployment-insurance benefits in the hands of the people at the moment when the depression begins and when the first groups begin to be laid off is bound to have a beneficial effect, and not only will you stabilize their purchases, but through stabilization of their purchases you will keep other industries from going downward, and immediately you spread work by that very device, for by keeping alive certain industries through the expenditure of their small but certain unemployment-insurance benefits, they will very definitely put a stop to this downward spiral of employment and thus reduce the length of the depressions which we have all studied so much of in the last few years.

Now, the recommendations which we make are carried out in title IV of the bill which is before you, and this is definitely a recommendation that there should be established a system of unemployment insurance which rests upon giving the States a considerable amount of freedom in experimenting with different types of unemployment insurance and the fitting and adapting of them to their own needs as indicated by their experience with the people within those States.

Now, many of us, and I among them, started out with a conception that a national or Federal system would be a good system, and the best system if we could devise it. After a period of months and weeks of study of the matter, I came to the conclusion, as did most of the other members of the Committee, that the Federal-State system was the most practical at this time and was the best suited to the problems of administration as well as to meeting the needs of the different parts and different sections of this country, but I do not want to be understood as underestimating the value of a general national system if we could devise one.

I think the truth is that we found it very difficult to devise a national system which would meet all of the strains placed upon it, which would not be too cumbersome, too clumsy. We found that whereas there were 4 or 5 people that were convinced that we ought to have a national system, among those 4 or 5 there was no unanimity of opinion as to just what the form of that national system might be, and we concluded that if 5 or 6 could not agree as to what the best system was, probably the Congress would not be able to agree as to what was the best system under all of these contingencies, and we have come to recommend, as our best opinion, a Federal-State co-

operating system, and we believe that the device of utilizing the taxing power of the Federal Government, both as a method of raising revenue for the Federal Government and as a device for encouraging and stimulating the passage of proper and suitable unemployment-insurance laws, is the best scheme, the best method, which we can recommend to you at this time.

So that in title IV of this bill, as you realize, there is a levy of a small pay-roll tax on employers in every State, and the tax will be the same in every State.

Of course, this idea of levying the same tax whether or not there is an unemployment-insurance law in the State is a very real equalization of competitive costs between employers in the various States, so that there will be no advantage to any employer to continue to carry on his business in a State which does not have an unemployment-insurance law.

In other words, there will be no great movement against the passage of an unemployment-insurance law in a particular State on the ground that to pass it would put that State at some disadvantage with regard to its neighboring State which does not have an unemployment-insurance law, but in those States in which there is no unemployment-insurance law, at least a 3-percent tax will be paid to the Federal Government, which will be sufficient to equalize the burden in the two States.

The plan recommended, as you know, is the plan of a taxation upon pay rolls of 3 percent, against which there may be an offset of 90 percent of the 3 percent in the case of any employee in a State which has a compulsory unemployment-insurance law to which he has made regular contributions in an amount not less than 3 percent. If he makes a contribution of less, he is entitled to an offset only of the remainder of the 3 percent represented by his annual contribution to the fund in the State in which he is carrying on his business and which has a compulsory law.

Credits are allowed up to 90 percent, only for the purpose of providing a small fund, a 10-percent fund for administration, and this has proved by most of the countries which have unemployment insurance to be a modest allowance for the cost of administering it, both State and Federal, and it is proposed that that 10 percent which the Federal Government retains out of this tax should be given back to the States, or a certain portion of it, to aid them in their cost of administration.

It is also a condition that these payments should be made into the Federal Treasury. This will, of course, be sufficient to insure to all persons everywhere, all employers and all employees, in whatever State they may be, that the funds which are set aside to pay for future unemployment costs are taken care of under the auspices of the Government, and that the credit of the Government is behind the good faith in which they are taken care of, and that there is no advantage or disadvantage to the employees and employers of any particular State. The States can spend the money only for the payment of benefits to the unemployed, and it is indicated that they must pay it through the regular administrative system in their States; in other words, the public employment officers through which the work will have to be administered.

Of course, this is clear, that no State will pass a law in which a man or woman is entitled to unemployment benefits who refuses to take suitable work which is offered to him, and there, therefore, must be some administration through an office or an agency which is prepared to provide suitable work to the individual making claims for unemployment insurance.

The actuaries have discussed with us what would be possible under a 3-percent assumption, or 2½-percent, or 2.8 percent in the way of a contribution of employers, or employers and employees, to a State unemployment-insurance fund, and in general it appears that in a particular State, by allowing about a 4 weeks' waiting period, this would be the situation. You can change the terms, and the figures are different, but you can make it 2 weeks or 3 weeks or 1 week; but, granting a 4 weeks' waiting period and a 3-percent contribution, it can be estimated that the average employee who has worked the majority of the preceding years, and the majority of the weeks that preceded, will be able to receive allowances which in general will be about \$15 per week.

Now, then, you will tell me that that is not sufficient, and it probably is not sufficient in most cases, but, making that as an actuarial assumption, it can be varied by varying the waiting periods or the coverage, and by providing or not providing for an excess of benefits for those persons who, for many years, never make any claim on the funds, and who later on, through a technological change in industry, find themselves out of work for a much longer period.

It has been thought well by most of the actuaries that we should recommend to the States that they consider the idea of allowing at least 26 weeks' benefit to persons who have not made any previous claims upon the unemployment-insurance fund.

All of these are what are called actuarial adjustments, and it is possible that the States would experiment with any number of arrangements in connection with their benefit funds, provided only that the funds themselves are sound and that there be a regular and a steady administration through the unemployment-insurance offices.

It has been thought wise to allow the States considerable freedom with regard to the rate of benefits and with regard to the variation of benefits, with regard to the length of the waiting period, and with regard to the type of State system; that is, whether they should have separate reserves for individual companies, or whether there should be one State-pooled fund.

There is a great difference of opinion between entirely honest, thoughtful, and informed people on which of those two different methods is the better, and, as you know, the Wisconsin State law provides for individual company reserves, and the recommendations made by a commission appointed in the State of Ohio and in the State of New York and in one or two other industrial States is in favor of the State-pooled funds.

In other words, we have no body of experience in this country tending to show us what will be the final results of the individual-company or plant-reserve system, and there is no European country which has worked out or had any experience whatsoever under the idea of individual reserves. The only European experience deals with pooled funds, and therefore we must rely in our actuarial computations only upon them, but, if States wish to experiment with this, it has been



thought wise to permit some limited experimentation until we shall have acquired a substantial American experience.

It has also been thought wise to permit the States to determine under their laws who shall contribute to the fund.

So far as the security of funds is concerned, it does not matter from whom the premiums are collected, whether collected from the employers alone or from the employers and the employees, or from the employers and the employees with the State government contribution to the fund. It does matter in the least from the point of view of providing the funds from which unemployment-insurance benefits can be paid in the future, but it has therefore been thought well to allow the States to experiment with those various methods of contribution in order again to build up an American experience and to show us under which form of contribution system there is the greatest satisfaction to our people and the greatest stability in the management of the fund and in the lessening of unemployment within the particular case, and I cannot recommend to you too sincerely the desirability of allowing the States some freedom to find their own way, to use their own peculiar genius in these particular problems. Sometimes some of these matters become highly controversial, and perhaps it is better in controversial matters to narrow the debate to a small area, rather than to have it spread over an area that involves most of the people of the United States of America.

I think that I should take up very briefly with you today the recommendations made for appropriations for the care of dependent, crippled, and handicapped children, and for the provisions that are made for the benefit of medical and nursing care for mothers and children, and also to indicate to you that in making recommendations for appropriations for grants in aid to the States for their public-health service, there was a sincere belief that out of the utilization of that method we can gradually build up in this country a system of prevention of the most difficult and devastating diseases and illnesses which affect our people, and particularly the low-income groups.

I am afraid that I have been too long, sir, but I shall be very glad indeed to answer any questions that you may have to ask.

The CHAIRMAN. Have you concluded your main statement?

Secretary PERKINS. Yes, sir.

The CHAIRMAN. The Chair would like, first of all, to say that your statement has been most illuminating and convincing, and I cannot commend it too highly.

Mr. TREADWAY. As one member of the minority, and speaking for myself only, I would like to join with the chairman in commending the explanation that the Secretary of Labor has placed before this committee.

We all realize what a tremendous problem has been brought before us. For a good many years various States have undertaken partially to solve this great social problem, and without the slightest idea as to how we will eventually deal with the subject matter or what form of bill I may see fit to agree upon, nevertheless I think this committee owes to the Secretary of Labor a most spontaneous word of appreciation for the explanation that she has given to us of the studies that the Committee of which she is a distinguished member has made.

Secretary PERKINS. Thank you.

Mr. COOPER. Mr. Chairman, I am sure that those sentiments express the real feeling of the entire committee.

It was my privilege to be a member of a subcommittee of this committee which gave consideration to the subject of unemployment insurance during the last Congress, and we were favored by a most excellent statement from the Secretary. As I recall, that measure provided for a 5-percent excise tax on the pay rolls of industry.

Secretary PERKINS. Yes.

Mr. COOPER. The pending bill provides 3 percent.

Secretary PERKINS. Yes.

Mr. COOPER. As I recall, the Secretary estimated that the 5-percent excise tax would yield substantially one billion dollars a year.

Secretary PERKINS. Yes.

Mr. COOPER. What would be the estimate of the amount to be yielded by the tax provided for in this bill, if the Secretary will be kind enough to inform us?

Secretary PERKINS. I will have to ask Mr. Witte that question.

The United States pay roll ranges between 20 and 30 billion dollars, and you realize, of course, that the amount that you may gather on a 3-percent tax will depend upon whether your payroll is at the lowest level, as it would be in 1933, or at the highest level, as it was in 1928, and we have chosen 3 percent in this bill instead of 5 percent, because we get down to a little more realistic approach to the situation, and also because the Secretary of the Treasury was a distinguished member of the committee, and it was his warning, and I think a sound one, in which all agreed, that in the imposition of these taxes on pay rolls, we should be cautious not to go further than was absolutely necessary in order to build this fund.

Mr. COOPER. As I recall, the Secretary gave a very splendid illustration, to the effect that the purpose of the unemployment insurance system was to try to equalize the difference between the peaks and the low points which we ordinarily experience in this country, and it was thought that this billion dollars a year which was estimated to be yielded from the 2 percent tax would be sufficient to meet the situation.

I am wondering what the present view may be as to the yield derived from the 3-percent tax.

Secretary PERKINS. 3 percent ought to yield something less than a billion dollars, but if it is utilized reasonably, it will be utilized not in the form of a payment into the Federal Government, in the form of a tax, but utilized as an assessment into the State unemployment insurance fund that you ought to have built up. In the industrial States, where there is a large number of employees covered by this bill and there is a systematic method of paying cash discounts to all persons when they are unemployed more than 1, 2, 3, or 4 weeks, depending upon the waiting period, that in itself will be sufficient to put purchasing power into the hands of the people laid off, and therefore you stabilize the whole industrial situation in that State.

In other words, today when a man is laid off, he stops spending, and the longer he stays unemployed, the less he spends, and you get, therefore, a downward spiral as the market dries up more rapidly than you anticipated it would, because the people laid off cannot buy anything, and as they stop buying, the market for the consumption of goods stops and other factories have to lay off people who, had there been this stimulus in purchasing power in the way of unemployment compensation, would not be laid off. In other words, these funds, which are put into purchasing power, from a market, and that will



help to stabilize a large number of industries dealing in consumption goods, and those dealers make their eventual appeal to dealers dealing in durable goods. If you could prevent the drop in unemployment being so great as it has been in the recent depression, you would have been able to do a great deal of stabilizing, not only in connection with the consumption goods but the heavy, durable goods, too.

Mr. COOPER. Then it is thought that the tax of 3 percent provided in this bill will be sufficient to meet the purposes intended?

Secretary PERKINS. It is our belief at this time, after a very careful scrutiny, with a great deal of advice from actuaries and insurance experts, that that is so.

Mr. COOPER. Would it be fair to ask the Secretary to briefly indicate to us the principal differences between the unemployment insurance provisions of the pending bill and those in the measure considered in the last Congress?

Secretary PERKINS. There are practically no difference, except as to the amount of the tax, and except for certain provisions that are set up as a safeguard when reserve funds are permitted. The fact that we have had no actuarial experience anywhere in the world with these reserve funds has made this committee feel that we should write in some safeguards to be thrown around at least the original experience with these reserve funds.

Mr. McCORMACK. Secretary Perkins, you talked about getting this money back into the hands of the consumer, on the theory that the success of mass production also calls for the success of mass consumption.

Secretary PERKINS. Yes, sir.

Mr. McCORMACK. In the nature of wages, or by industry seeing that the consumer's dollar is absolutely protected, that the consumer is offered wages through legislation of this means so that he will have an opportunity to make mass production a success?

Secretary PERKINS. Yes, sir.

Mr. McCORMACK. This transition period that you referred to is the period that we are now undergoing, between more or less individualistic capitalism and more or less social capitalism?

Secretary PERKINS. I am beyond my depth, now.

Mr. McCORMACK. Your mass production, of course, will produce great social changes, and you referred to a lower price level bringing with it an increased consumption.

Secretary PERKINS. Yes, sir.

Mr. McCORMACK. And, of course, that carries with it the necessity that the consumer likewise has an ability to produce?

Secretary PERKINS. Yes, sir.

Mr. McCORMACK. I was rather interested in another aspect of this question. At the present time local governments, and during the past 2 years the Federal Government, have made extensive appropriations for relief. What effect do you think legislation of this kind will have upon reducing such expenditures in the future?

Secretary PERKINS. A very tremendous effect, sir. Of course, one cannot predict the exact amount by which the relief load would be lightened, but if we had, for instance, the aged upon a regular income which had been provided for by advance contributions to a fund from which they drew their allotment, and if we had dependent children regularly cared for on an allowance to their mothers or natural pro-

tectors, and if we had a scheme of unemployment benefits which would pay a small stipend to people as laid off, certainly the appropriations for relief and the necessity for either private or public relief in time of any industrial breakdown would be infinitely minimized.

One cannot say that there would be no need of relief, because there are always unusual cases, and those unusual cases pile up fairly large under some circumstances.

But this scheme would cover the whole body of distress which faces any community during a period of industrial depression.

Mr. McCORMACK. It places the social responsibility upon business?

Secretary PERKINS. Yes.

Mr. McCORMACK. Is it your opinion that it will constitute a great saving to the small group of taxpayers and transfer it more or less generally where it belongs, as a part of the cost of production of business?

Secretary PERKINS. I think myself that it will have a stabilizing effect upon business by transferring a part of this cost as a part of the cost of production, the cost of doing business. There will undoubtedly be an incentive to reduce the amount of unemployment. Those of us who have studied certain industries with some care are convinced that some industries can, by taking thought, reduce the amount of unemployment which they regularly produce; others cannot. It depends upon things outside their control. We do believe that this imposition of an assessment will have a stabilizing influence on those industries that are susceptible to preventive methods of stabilizing unemployment.

Mr. McCORMACK. What is the contribution of the employees under this bill?

Secretary PERKINS. In which form, sir, old-age or unemployment insurance?

Mr. McCORMACK. The unemployment insurance.

Secretary PERKINS. In the unemployment-insurance bill, sir, we have deliberately left to the States and to the State laws the whole question of how the funds should be raised, whether they should be raised by employer contribution or by joint contributions of employers and employees, or whether the State government should also participate in a three-part fund. That is a matter for the States to decide. It seemed to us very much better that it be experimented with in that way, particularly at this time.

The CHAIRMAN. Madam Secretary, would it be convenient for you to return in the morning at 10 or 10:30 to complete your testimony?

Secretary PERKINS. Yes, except for one fact, sir, that I have been asked to appear before the Senate committee which is considering a similar bill, tomorrow at 10. I should be very glad to appear any time after that.

The CHAIRMAN. I believe if you will confer with the Chairman of the Finance Committee, he will agree to your returning here, because he told me over the phone that our hearing would have the right-of-way, that he would not call any witness if such action would interfere with our hearings here; and will you then let us know?

Secretary PERKINS. I will confer with him at once, sir, and let you know.

Mr. TREADWAY. As a confirmation of the statement the chairman has just made, Senator Harrison gave me that same information, that he felt that we should produce the witnesses first.

The CHAIRMAN. The chair will make this observation: The committee will meet in the morning at 10 o'clock with the hope that Madam Secretary can be present until she has completed her statement. Otherwise, we shall proceed with Mr. Witte's statement. However, each statement will be printed in sequence.

Secretary PERKINS. There are a number of witnesses, sir, whom I am very hopeful that you will hear, people that have given careful thought to some one particular detail of this bill and of this whole subject. We are very anxious to have their knowledge and their thought available to you for whatever use it may be on this occasion.

The CHAIRMAN. The Chair will state that any witnesses whom we request to appear, like yourself, will be given a hearing.

The committee will recess until 10 o'clock tomorrow morning.

(Whereupon, at 3:53 p. m., the committee recessed until 10 o'clock tomorrow morning, Wednesday, Jan. 23, 1935.)

## ECONOMIC SECURITY ACT

WEDNESDAY, JANUARY 23, 1935

HOUSE OF REPRESENTATIVES,  
COMMITTEE ON WAYS AND MEANS,  
*Washington, D. C.*

The committee met at 10 a. m., Hon. Robert L. Doughton (chairman) presiding.

The CHAIRMAN. The committee will be in order. When the committee recessed yesterday, Madam Perkins, Secretary of Labor, was still addressing the committee.

Madam Secretary, you may continue your statement, if you will.

### STATEMENT OF HON. FRANCES E. PERKINS, SECRETARY OF LABOR—Resumed

Secretary PERKINS. Mr. Chairman and gentlemen:

I had finished my statement and I am here prepared to answer any questions any member of your committee may have to put to me.

The CHAIRMAN. Are there any further questions any member of the committee desires to propound to the Secretary?

Mr. JENKINS. Madam Secretary, I should like to ask one or two simple questions in which I am very much interested. They are these. Should it develop that it would not be wise to carry out this whole program, it is true, is it not, that the program can be divided without any serious danger to the part that is accepted? To make myself clear; for instance, as I understand it, your studies have been so exhaustive that you are in a position to say, without any qualification whatever, that the old-age pension plan, for instance, can be accepted without consideration of any of the other plans?

Secretary PERKINS. Yes, sir; but that will only take care of a very small part of our total social hazard from economic insecurity.

Mr. JENKINS. I have this in mind, that if, in this session of Congress—and we all understand that legislation is a growing proposition—it should come to pass that we should adopt the old-age pension and the bonus, for instance, as well as a comprehensive relief program, that might be as much as the Congress might be able to digest.

What I am interested in is whether or not, in your opinion—you have demonstrated that you have this matter well in hand—the adoption of the old-age pension plan by itself would in any degree meet the approval of those who have given this subject exhaustive study.

Secretary PERKINS. No, sir. To adopt the old-age pension plan along would not begin to give a rounded program of economic security. If those who have studied the problem had thought that the total provision for economic security was to be merely an old-age pension

plan, they would have recommended a much more—what shall I say?—a month more drastic, much more elaborate plan of old-age provision, on the theory that the aged would have to support the younger members of the family.

This whole plan is based upon the conception that those of working age will make the principal economic contribution to the maintenance of family life and that the aged will only be expected in any family to contribute such share of the total family budget as can be really said to be their own self-support.

So that I should think to adopt old-age pensions without the rest of what is proposed would be to leave a very wide margin of economic insecurity of the exact type that can best be prevented, that we know how to prevent.

Mr. JENKINS. Then I take it from your answer that the principal idea of those who foster and favor this program is not so much to relieve a temporary situation as to provide for a future economic security.

Secretary PERKINS. Yes, sir. We all know about the needs of the aged, but the purpose of this rounded program is to prevent the disasters which have overtaken our people in recent years; to provide a certain stability of income to the low-income groups; income from every source—from the young, income on behalf of the aged, and income on behalf of the dependent young.

Mr. JENKINS. Do you not think that this could be done? I am not putting myself up as an expert, as I recognize you to be, but do you not think that if we were to adopt a program of old-age pension and a rather comprehensive program of assistance to those who are physically handicapped, regardless of age, the blind and the crippled, people of that sort, taking them out of the relief categories—because, as a matter of fact, their condition is not the result of a depression, but the result of physical ailments over which they have no control—do you not think that if we did that we would be doing a good deal?

Secretary PERKINS. I think, sir, that we are all aware of the fact that we have always with us the sick and the handicapped. That is no new problem in the life of any community. Care for that group is usually regarded under the heading of the extension of the general underlying charitable impulse which has motivated mankind for many years. I think any program which omitted the consideration of the best way of preventing disaster due to unemployment would be a very insufficient program and I think that that must be taken into consideration and must be a part of any program that is worthy of the name of economic and social security.

Mr. JENKINS. The way I look at this program is this, Madam Secretary, that the justification for a Federal old-age pension plan is this. Many of the States have a plan. Naturally, there may be a conflict between the various plans. In my State of Ohio, for instance, I have found this situation, that we are trying to take better care of the old people than we are of the infirm and the handicapped. For instance, we leave the widows and children and the blind to the county, to the officials of the county units, and the result is that today the old people in Ohio are much better taken care of than, for instance, the blind people.

My idea on these matters is that if we adopt a Federal program further assisting the States with reference to old-age pensions, we



follow that with a program which some of the States need—I think the State of Ohio does—very badly, a program to rebuild these unfortunates; and, if we do that, we will be making a pretty long step in the right direction, in one session of Congress.

Secretary PERKINS. It would be very good, but it is not adequate unless you take into consideration the complicating factor of recurrent unemployment, which is the greatest hazard which people face, without regard to their physical handicaps. People of sufficiently good and sound physical condition face this handicap of unemployment. They find themselves in a situation over which they have no control and which they cannot personally foresee. I would not want for one moment to be understood as discouraging any State from making the most ample provision for the blind and the crippled and the handicapped of all sorts.

Mr. JENKINS. That is all, Mr. Chairman.

Mr. TREADWAY. Madam Secretary, may I ask how the amount was arrived at, that is in title I of the act? I believe the amount is \$125,000,000.

Secretary PERKINS. This, of course, was arrived at on an estimate of what will likely be necessary to appropriate in the next year. The appropriation is indicated for the first year as \$50,000,000. That is based upon the States which now have old-age pension laws and the demands which they are likely to make for assistance in meeting their requirements. The estimate of \$125,000,000 is based on an estimate of the number of States which are likely to pass old-age assistance laws within the next year, and therefore depend upon the Federal Government to match their appropriations.

It may be it is true that that may not be sufficient to meet the requests of those States. It was estimated that that would be about the amount that would be needed—maybe a little less, maybe a little more. This is only an authorization to appropriate, you understand.

Mr. TREADWAY. Have you carried it on beyond 1937, as to the likely expense on the part of the Government, provided, of course, the States adopted the plan as rapidly as your committee hopes they will?

Secretary PERKINS. We have, sir; because it is understood that after the beginning of the collection of the tax to provide for a self-sustaining old-age annuity system, with the beginning of that tax the Government will borrow from that fund to pay the pensions of those who are now aged and dependent. You could arrive at it another way, if you wanted to, and provide for the continuing appropriation out of a general tax budget of up to a much larger sum than this—\$200,000,000, \$300,000,000, \$400,000,000 a year.

Mr. TREADWAY. According to the percentage that you charge as a tax.

Secretary PERKINS. Exactly.

Mr. TREADWAY. How much was it you said yesterday, 1 percent?

Secretary PERKINS. We have given the actuaries 1 percent as the general assumption upon which they have based their plan.

Mr. TREADWAY. And that was to bring in about \$200,000,000 per year?

Secretary PERKINS. That would bring in more than that. That would bring in nearly a billion dollars a year.



Mr. TREADWAY. One percent?

Secretary PERKINS. Yes.

Mr. TREADWAY. \$1,000,000,000?

Secretary PERKINS. Yes. The pay roll of the United States is between 20 and 30 billions per year. It is a little difficult to estimate it, because the number of those persons who may be outside the general coverage of this act is not quite certain, in advance of a little experience in the matter. But it will bring in in the neighborhood of \$1,000,000,000 per year.

Mr. TREADWAY. Then is it the expectation of the commission that after the tax was started to be collected or after the machinery gets into operation, the tax will relieve the Government of any larger appropriation than the \$125,000,000 specified here in this system of borrowing to which you have referred?

Secretary PERKINS. If you continue the system of borrowing for old-age pensions from the fund which is being built up to pay old-age annuities—if you continue that system, after a few years it will not be necessary to make appropriations under the general tax to pay the remaining years of life of old-age pensions; that is, those now aged and indigent.

Mr. TREADWAY. I notice that you speak only of old-age pensions. Assuming your whole measure here will become law, where do we stand financially here, if all the benefits provided in the bill are put into effect? Where will the Federal Government be financially then?

Secretary PERKINS. Old-age pensions and old-age annuities have been thought of as having in mind the same general principle, that is, the prevention of poverty and need among aged persons.

It has, therefore, been our conception that the wise way to proceed would be for the Government to borrow from the old-age annuity fund to pay the old-age pensions.

You could, however, permit the old-age annuity fund to accumulate and pay pensions out of general taxation, which would be imposed from year to year. I take it that you are referring to the other appropriations which are indicated; namely, the appropriations for the relief of dependent children, for the stabilization of the condition of dependent children, for the crippled children, for public health, and for matters of that sort.

Mr. TREADWAY. And unemployment.

Secretary PERKINS. Well, unemployment will take care of itself. The unemployment-insurance fund will take care of itself without appropriations from the Federal Government.

Mr. TREADWAY. You do not expect that to be an expense on the Federal Government, then?

Secretary PERKINS. Under this plan, that will not be necessary. That is an insurance fund based upon the collection of premiums during the working life of individuals. Those premiums will be sufficient to pay the benefits that are allowed under any law, when a person is unemployed, and that will not come upon the Federal Government for support.

There will, however, be, if you carry out the other aspects of this proposal, namely, provision for dependent children, provision for handicapped children, provision for public health, and provision for public works, integrated with the plan of unemployment insurance, so that after an unemployment cash benefit a man will be entitled

in a long depression to the right to have a job on public works; if you do that, there will be the necessity of making appropriations annually out of the general-tax funds to maintain the other aspects of the program; but not old-age annuities and not unemployment benefits.

Mr. TREADWAY. In other words, the actuarial tables or actuarial prophecies indicate that the unemployment fund will be paid for by employers and employees, and an accumulation will arise by reason of which there will be no deficit for the Federal Government to make up. Is that approximately correct, Madam Secretary?

Secretary PERKINS. Yes, sir. You see, it is recommended by this committee that the unemployment-insurance measure be enacted by the States and not by the Federal Government and that is sufficient, almost, to insure that the Federal Government will not be called upon to make appropriations to the funds unless the benefits are extended by the States, with the consent of the Federal Government, which will at that time enter into the question of whether or not it desires to make appropriations from taxation, which I think is most unlikely.

Mr. TREADWAY. I was reading in the Congressional Record this morning and noticed a memorandum inserted by a Senator that very seriously questions the adequacy of the \$125,000,000 provided for to pay a \$15 benefit on the part of the Federal Government, assuming that the States match the \$15. The calculation there is that it would require something like \$700,000,000 if the law were put into effect. That was really the basis of my interrogatories, in order that I may get your reaction as to the actual cost that this proposal would put upon the Federal Government.

I realize that you cannot, in a social insurance proposition like this, measure every dollar. This is not a financial matter, in other words, at all. It is a matter of the preservation of the people's well-being.

I realize that it is not to be looked on purely as a business transaction would be.

Secretary PERKINS. That is true.

Mr. TREADWAY. Nevertheless, it seems to me it is our duty on this committee to develop, if we can, the financial picture. I think that is specifically our duty.

Secretary PERKINS. I think so, too.

Mr. TREADWAY. You have undertaken the work of showing the Congress the manner in which this social insurance can be brought about. But it does seem to me, as I have said, that we ought to study very carefully the financial responsibilities as they affect the Federal Government. Do you agree with that?

Secretary PERKINS. I do agree with you, sir. I think that we should, so far as we are able, look ahead into the total costs. I think that is a very reasonable and sensible thing to do.

As I said yesterday, the relief agencies say that there are today about 1,000,000 persons 65 years of age and over who are on relief, actually on relief. There is an unestimated number of persons, in addition to that, 65 years of age and over, who are dependent, but who have not come upon any form of public relief for their assistance. All of those will, presumably, make application to be covered by the old-age pension system.

Mr. TREADWAY. To the relief of the other agencies that are now aiding them?

Secretary PERKINS. Yes. There are 1,000,000 people now on relief in some way or other, who are being sustained out of public funds, and there will be others who will be added.

Mr. LEWIS. Will the gentleman yield?

Mr. TREADWAY. I yield for a question, or an interruption, but I do not yield the floor.

Mr. LEWIS. As throwing some light upon the gross possibilities of the burden, Australia affords, I think, perhaps, the longest experience of any country in presenting a social distribution of wealth comparable with our own. The Australian experience has been that just 35 percent of those eligible under the 60 years for women and 65 for men have become dependent pensioners. I regard the Australian experience as of real value for us here.

Mr. COOPER. Will the gentleman yield?

Mr. TREADWAY. I yield for an interruption only.

Mr. COOPER. As a further suggestion along that line, just to refresh the gentleman's memory, I will recall that Dr. Witte, in the course of his statement, covered that point and stated, as I recall, that we now have 28 States of the Union with old-age pensions laws; and that the total amount expended has only reached \$31,000,000.

Mr. TREADWAY. But would not this be true, Mr. Cooper, that the Federal Government is always removed, in the minds of State officials, from the closeness to the individual taxpayer that the State bears to him? In other words, they would be more careful of their appropriations made under the State government than they will if they think that the Federal Government is going to collect these payments?

Mr. COOPER. Under this plan, every time the Federal Government puts up a dollar, the State has to, also.

Secretary PERKINS. Yes.

Mr. TREADWAY. Certainly, it is a 50-50 proposition.

Mr. COOPER. Yes. There will be that same incentive on them to conserve their own resources, because of the fact that they are putting up a dollar every time the Federal Government does so.

Secretary PERKINS. Yes, I think so, too. You see, there is a definite limit to the amount that the Federal Government will appropriate—namely, \$15 per case. So that, if they want to go beyond that, if the States want to go beyond that, they have got to pay the addition themselves, which will be, I think, quite sufficient to make them examine the premises carefully before they act. That is, it may be necessary and desirable that they should pay more.

Mr. TREADWAY. The proposal of paying \$15 was one reason for the argument that is in the record this morning, and, rather than take your time in discussing that just at this moment, Madam Secretary, would you be kind enough to look that item over and add to your remarks your comment on it? I should appreciate it very much.

Secretary PERKINS. I shall be very glad to, sir. I wish to say this, however, that one realizes that the item of \$125,000,000 which is hereby authorized to be appropriated, in this bill which is before you, is an estimate, pure and simple. It is an estimate, taking into consideration the likelihood of various States adopting a cooperative bill before the collection of the tax begins.

Mr. TREADWAY. There are just two other matters that I would like to have you give us your views on. First, in various places in the bill there are certain tax charges. For instance, there is the tax

of 3 percent on employers' pay roll. In the aggregate, taking all the sections of the bill, how much will the tax amount to? There is one item of 3 percent and in another place there is a tax that is on the employer and the employee. I do not know how many other taxes there are. How much will that amount to, in the aggregate, in percentage of pay roll, or in any other way in which the tax is levied?

Secretary PERKINS. The 3-percent tax against pay rolls for unemployment provided for—this is not for unemployment provided for in that section of the report that deals with unemployment insurance—will aggregate somewhere about \$600,000,000 a year. That, of course, is on the assumption that no State will pass an unemployment-insurance law. If States pass unemployment-insurance laws, the tax will not be collected. For every State that passes an unemployment-insurance law, the tax will not be collected. But a contribution will be made into an unemployment-insurance fund in that State. So that the aggregation is a purely theoretical aggregation of taxes. When you come to the tax of 1 percent for old-age pensions, which is to be divided between the employers and the employees equally, you aggregate about \$200,000,000 per year.

Mr. TREADWAY. Are those the only two places where any tax items occur?

Secretary PERKINS. Yes.

Mr. TREADWAY. I thought there were others; there is none with respect to the public-health work?

Secretary PERKINS. No. That is just an appropriation from general funds, relatively small.

Mr. TREADWAY. So that really the total that you provide for in this measure, if the bill is adopted in whole, is 4 percent on employers?

Secretary PERKINS. Yes. That is, it is not 4 percent on employers—

Mr. TREADWAY. Three and a half percent and one; is that it?

Secretary PERKINS. It is 3 percent and a half of 1 percent on employers.

Mr. TREADWAY. Yes; half of 1 percent is added to the employers' tax under—

Secretary PERKINS. Old age.

Mr. TREADWAY. That is under mutual agreement, with the other half being on the employee.

Secretary PERKINS. Yes.

Mr. TREADWAY. That explains that. There is just one other item, and I am sorry that I am taking this much time.

Mr. VINSON. In that connection, will the gentleman yield on that point, on that thought?

Mr. TREADWAY. Certainly.

Mr. VINSON. Madam Secretary, we are prone to think of this fund as having to be realized from the revenue of the 3-percent tax for unemployment insurance and one-half of 1 percent, or whatever rate is used, for the old-age benefits or the contributory annuities, as an added burden. But the fact is that every governmental unit in the United States today is already burdened with these problems and is expending considerable sums, in the aggregate, hundreds of millions of dollars, now.

Secretary PERKINS. Yes.

Mr. VINSON. And this fund that will be realized in this way is really not an added expenditure or an added burden.

Secretary PERKINS. That is true. This will be a substitute, in a very large measure, for the relief burden which many States and localities bear. That is true, sir.

Mr. TREADWAY. Just one other thought, if I may. As the chairman stated, and I think he has told the committee heretofore, administration witnesses such as those who might be recommended by you or your associates will be called before the committee. But I notice in our assignments of witnesses that they are all officials. Would it not be advisable, in view of the tremendous scope of this measure, to get what reports we can of experienced business people; to get them to testify as to how various procedures have worked out? I notice on your advisory committee there are people of great experience. There are five or six officials of business organizations. I only know them by reputation. I do not know any of them individually, personally. You also have a governor, and you have the master of the National Grange.

Would it not be wise to hear the experience, for instance, of life-insurance people, or the experiences of people in industries such as are represented by the General Electric Co., along the lines of unemployment and old-age pensions, and so forth, to see if we can get a picture from their experience which might not, perhaps, always agree with the administration's viewpoint?

I think it would be to your advantage, referring to you as a member of the administration. And would it not be advantageous for us to get as broad a scope as possible as the basis of opinions on such matters as are contained in this bill?

Secretary PERKINS. We consulted all of these people ourselves, Mr. Congressman.

Mr. TREADWAY. I realize that.

Secretary PERKINS. And I assume that this committee will wish to call before them anyone who they think is a proper person and experienced in the field. That will be for your committee to determine.

Mr. CULLEN. Will the gentleman yield?

Mr. TREADWAY. Certainly.

Mr. CULLEN. Referring to the people who have been mentioned by the gentleman from Massachusetts, it is my thought, and I think the Secretary will bear me out, that these individuals have participated in the make-up of the bill now before us.

Mr. TREADWAY. The Secretary just said that.

Mr. CULLEN. Yes.

Mr. TREADWAY. On the other hand, if they appeared, they could give us the benefit of their own experiences in these matters. But I am not speaking of these individuals only. I am speaking of such people as might be brought to the attention of the committee by representatives outside of the administration who have had experience in just this sort of activity; that is, the practical side of this sort of legislation.

Mr. CULLEN. If you will bear with me just a moment further, in other words, you would like to have some of these individuals appear before the committee and give testimony as to the wisdom of this proposed legislation.



Mr. TREADWAY. And their experience, if they have had any, in their business connections, in these matters.

Secretary PERKINS. I assume that your committee will call whoever is in a position to give you any help and assistance and information.

Mr. McCORMACK. May I make the suggestion to you, Mr. Treadway, that I think it is a very excellent idea you have in mind. But I think the committee itself should decide whom to call before the committee. I think it is an excellent idea to have all the variety we can of experience presented to the committee on these subjects, and particularly where their testimony is in support of the bill, it would have a very good psychological effect. But I think that the committee should pass on such a matter.

Mr. TREADWAY. Yes, I agree with you, and I withdraw any reference to that in the record.

Mr. KNUTSON. Will the gentleman yield?

Mr. TREADWAY. I yield to Mr. Knutson.

Mr. KNUTSON. Madam Secretary, what percentage of the employed are laid off when they reach the age of 50? Have you any figures on that?

Secretary PERKINS. There are no known figures on that subject, sir. The age at which people find it difficult to find new jobs in industry has been decreasing, has been getting lower and lower over the last 25 years. But the laying off of people at 55 or any other flat age, I think, would be very difficult to get any substantial figures on, because of the fact that the picture varies very much.

The laying-off of a person who is 55 is not nearly so common as the refusal to hire for the first time, on the basis of a new employee who is 55 years of age.

I am sure that there are no figures that are reliable upon that subject.

Mr. KNUTSON. That is in part due to the fact that the group-insurance rates increase with the age of those who are employed?

Secretary PERKINS. That is partly true, sir; yes.

Mr. KNUTSON. And it is a matter of economy to the person taking out the insurance. So that it behooves us to make some sort of provision for those who are unemployed because of age. Have you any information as to the number who are 60 and past who were unemployed before the depression set in?

Secretary PERKINS. I do not think there are any such figures in existence, sir. There has been a lot of speculation, but no real information on the subject.

Unemployed because of age, you mean?

Mr. KNUTSON. Yes.

Secretary PERKINS. Over 60; there is no real information on that subject.

Mr. KNUTSON. But the tendency is to employ younger and younger people, and to dispense with the services of all people who are 55 or 60, in industry.

Secretary PERKINS. There is a tendency in the highly mechanical industries not to employ for the first time persons who are past early middle life. I do not think you can honestly say there is a tendency to lay off people who have been in the employ for a number of years, merely because they have reached age 50. But there is a tendency



not to give a new job to a man of 50 or 55, if there is a man of 30 available, who has the same skill, other things being equal.

Mr. KNUTSON. There is no place for them to go when they are once let out.

Secretary PERKINS. In their own trade; that is correct.

Mr. KNUTSON. It is a difficult business.

Secretary PERKINS. That is correct.

Mr. KNUTSON. Madam Secretary, do you care to express any opinion with reference to a new plan that originated out West, I think out in California; I think it is called the Townsend plan?

Secretary PERKINS. It is not an insurance plan, sir.

Mr. KNUTSON. It is an old-age insurance plan.

Secretary PERKINS. It is not insurance. It is a dole. The proposal is, as I understand it, to provide a dole to all aged persons. Insurance implies that premiums have been paid in advance to cover the particular risk which is assumed. The plan to which you refer is not that at all, but is a mere appropriation of a large monthly income without any preliminary contribution, any preliminary cash contribution which could be called a premium, to support the payments that are to be made.

Mr. KNUTSON. I have a part of a document here that someone sent me which says that the plan demands that the National Government request all citizens of 60 years and over who can do so to retire from salaried positions and accept the important task of circulating \$200 per month for the remainder of their lives.

Of course, we all realize that the more business there is, the more prosperous we are. Perhaps some such plan could be worked out. How much consideration was given to a proposal such as this?

Secretary PERKINS. Well, a real consideration was given to it, because it became a popular newspaper subject of discussion this summer, so that it was looked into sufficiently to make an estimate of what it would cost. Two hundred dollars a month to every person now over 60 years of age would amount to something considerably more than one half of the total national income of the U. S. A., and it seems almost fantastic to estimate a solid, substantial insurance scheme in any such terms as that.

So that, although we gave it consideration, it was only given consideration to the extent of seeing that it was, from the point of view of our present financial structure, quite impossible; and that we must give our more serious and thorough attention to methods that seem more practical.

Mr. KNUTSON. Of course, the plan that has been submitted to this committee is going to prove rather disappointing to those who were expecting something like \$200 a month.

Secretary PERKINS. Well, sir, the Government is not responsible for their having assumed that; so far as I know, no responsible officer of the Government has ever for one moment indicated that any such program was even possible or thinkable.

The CHAIRMAN. The Chair would like to make this observation. When one member is examining the witness, if that member yields, he yields it not for a long statement or for a series of questions, not to take the witness from him, but merely for a question or the interjection of a remark. To yield the floor to someone else will demoralize the procedure of the committee.

Mr. KNUTSON. Mr. Chairman, I asked the gentleman to yield to me at that particular point. I thought what I had in mind was apropos at that particular time, and I am sorry I have taken so much time.

The CHAIRMAN. Mr. Treadway still has the floor.

Mr. TREADWAY. There is just one explanation, one further detail regarding the aggregate amount of the tax, that I should like to inquire about. I think we left the discussion with the idea that the highest amount would be  $3\frac{1}{2}$  percent on the employer and a half percent on the employee.

Secretary PERKINS. Yes, sir.

Mr. TREADWAY. Under title III there is a step-up so that I think we ought to make sure that we understand each other in that particular.

Secretary PERKINS. Yes, sir.

Mr. TREADWAY. I felt when we finished that it meant  $3\frac{1}{2}$  percent and one-half percent permanently.

Secretary PERKINS. I am sorry; sir.

Mr. TREADWAY. It is not your fault at all, Madam. But under the provisions of title III, it goes up in 10 years, does it not?

Secretary PERKINS. It goes up in 20 years to 5 percent;  $2\frac{1}{2}$  percent on the employer and  $2\frac{1}{2}$  percent on the employee.

Mr. TREADWAY. Two and a half percent on each party?

Secretary PERKINS. Yes, sir.

Mr. TREADWAY. That is in 20 years. There is a gradual increase—

Secretary PERKINS. In increments of 5 years.

Mr. TREADWAY. From now on?

Secretary PERKINS. Yes.

Mr. TREADWAY. From the time of the adoption of the law?

Secretary PERKINS. In 5-year periods.

Mr. TREADWAY. I think, just as a matter of clarification of the record, we ought to make that explanation.

Secretary PERKINS. This, of course, is the idea. The reason for putting it on an increment basis like this is to distribute the contribution in some terms that will make those who are themselves growing older and coming nearer to their time of collection, begin to pay for the increased benefits.

Mr. TREADWAY. I see your theory. Now, in 20 years, on the basis of the estimate which you have given us, each party, the employer and the employee, would contribute \$1,000,000,000 a year.

Secretary PERKINS. Yes, sir; on the basis of  $2\frac{1}{2}$  percent.

Mr. TREADWAY. And that would develop a fund of \$2,000,000,000 a year?

Secretary PERKINS. Yes, sir; which would be necessary if you anticipate paying benefits to all people who will be eligible from that time on.

Mr. TREADWAY. I thank you very much, Madam Secretary.

The CHAIRMAN. Madam Secretary, my colleague very pertinently raised the question of the charge that this bill would entail on the Treasury in connection with the payments of benefits under the old-age pension provision. Something was said about an estimate of \$700,000,000 a year that appeared in the press this morning. The bill provides for a payment which, in the testimony, it has been estimated for this year would be \$50,000,000 as you stated, and next year \$125,000,000.

I would like to ask if that estimate was made after a careful study by experts, those who are in a position to know and who are well qualified to make as intelligent an estimate as possible?

Secretary PERKINS. Yes, sir. Of course, there is a certain element of uncertainty in it, because one cannot say at this moment how many of the States who now do not have old-age pension laws will, in the next 12 months, adopt old-age pension laws, and so be in a position to take advantage of this or to make a request for an appropriation, a matching appropriation from the Federal Government. That, I suppose, no one can determine with any accuracy, as it depends upon the will of the elected representatives of the people in that State.

So that the amount \$125,000,000 has to be an estimate. It is our judgment that this will pretty nearly represent it. However, we must anticipate that appropriations necessary to meet the old-age pensions, if they are not borrowed out of the fund collected for old-age annuities, will increase considerably over a period of years, will increase to \$200,000,000, to \$300,000,000, to \$400,000,000, to \$500,000,000, if they are not borrowed from the old-age annuity fund.

You have got to pay for it one way or another. You have either got to pay for the guaranties out of taxes, out of the general taxes, and make an annual appropriation to match the States' for old-age pensions, that is, noncontributing pensions to persons who are now 65 years of age and over, or you have got to borrow from the gradually accumulating fund which is being collected under the old-age annuity plan. And if you borrow from the fund, you have got to repay it some time.

The CHAIRMAN. There is much discussion throughout the country, and we are receiving in our offices large numbers of communications, relative to the Townsend plan. I assume you have given some careful consideration to that proposal.

Secretary PERKINS. Yes, sir.

The CHAIRMAN. Will you favor us with a statement of your opinion regarding that?

Secretary PERKINS. I think, sir, without wishing to pass over the very honest aspiration which is apparently involved in that plan, it is a system which we are not prepared to carry through under our present financial, economic, and political structure. It amounts to a dole, a very large present, just a gift, to all persons who are 60 years of age and over; a very large gift, sometimes much, much larger than the income which they enjoyed during their younger and working years.

It has, of course, in it, this, what the Germans call the hot-money theory; that is, the theory that the \$200 per month will be spent within the month.

The whole plan rests upon the assumption that you can make these appropriations and that purchasing power will develop immediately sufficient to increase the demand upon the markets for consumption of goods so rapidly that you will at once stimulate the industries to produce consumption goods, and that you will get, therefore, that rapid turnover of income which is so desirable.

Our opinion, on canvassing it, was that the costs were so large in the beginning as to be prohibitive from any sensible and practical consideration; and that the plan was fantastic, that it had certainly no right to the title of insurance, as there is no preliminary payment

by anyone in the form of a premium to provide for this large appropriation.

I think we reckoned that it would mean an appropriation of about 20 billion dollars the first year. I do not know whether any Congress that has ever been elected can face that. But, so far as I am concerned, I cannot even think about it. So that it seemed to me to be in the realm of fancy rather than in the realm of practical statesmanship.

The CHAIRMAN. May I ask you this question, Madam Secretary? If people, in their younger days, in the days of their active business life, had the assurance of a governmental pension or bounty of \$200 per month when they reached the age of 60, would it not have a tendency to remove the incentive to thrift?

Secretary PERKINS. Well, I do not know about that. I do not think the incentive to thrift rests upon any of these things. Some of the thriftiest people I have ever known have been people who have had the largest incomes and had them from quite certain sources, and the thrift of those who are very, very well-to-do is very well known in this community. I think that thrift is something that arises from one's state of mind rather than from one's necessities.

The CHAIRMAN. Do you not think the thought would have an influence on them, that there is not the necessity of laying by something for old age, that there is not the necessity of saving their property as much as possible, so that they may have something for the years when their earning ability or capacity has disappeared?

Secretary PERKINS. I think, of course, that all of us agree that it is highly desirable that people should lay aside, insofar as the necessities of their lives make possible, something for old age, and most people have the instinct to do so.

This plan which is before us for an old-age annuity system does encourage that, as you say, by making almost compulsory a habit of a slight saving every month, which has long been thought of as desirable, but which I think most of us find very difficult unless there is some rather systematic way by which we can compel ourselves to lay that aside. I mean, people who have relatively ample incomes often buy insurance, even life insurance, on the theory that it is a kind of enforced savings on their part. In other words, they force themselves into it, to be sure, but they find it a desirable method of helping themselves to carry out the constructive theory of providing for their old age and for their dependents.

Mr. WOODRUFF. Madam Secretary, pursuing this question just a little further, you made a statement a few moments ago to the effect that it would require more than one-half of the income of the people of this country to finance this plan. I am speaking now of the Townsend plan, of course. You meant the gross income, did you not?

Secretary PERKINS. Yes.

Mr. WOODRUFF. How, in your judgment, would it be possible to secure enough money to finance this plan, providing Congress should enact such legislation.

Secretary PERKINS. You mean this plan that you have before you, sir?

Mr. WOODRUFF. I am speaking of the Townsend plan.

Secretary PERKINS. Well, I was not able to find any sources, sir. I did not go as far as that. I do not know how you could finance it.

Mr. WOODRUFF. Is it your judgment, that in order to find the necessary amount of money, it would be necessary to start the printing presses; and in the event that that should take place, in your opinion, what would be the value of the American dollar at the end of 6 months of an operation of that kind?

Secretary PERKINS. I do not think I am qualified to answer that question. I do not know whether it would be necessary to start the printing presses or not. I assume that if you meant to pay them in cash, that would be what you would have to do. Of course, the question of payment in kind has been discussed, but that seems so clumsy, so cumbersome, to most of us, we cannot think of it. We think of money as the medium of exchange of goods and services, and it is a convenient way which civilized men have developed to make it possible to have a rapid exchange of goods and services.

Mr. WOODRUFF. Thank you, Madam Secretary.

That is all, Mr. Chairman.

Mr. VINSON. Madam Secretary, as I understand it, it is not the thought or purpose of this bill, in the part that deals with the contributory annuities, to include railroad employees.

Secretary PERKINS. The railroad employees already have a railroad retirement system. It is recommended in the report, and I think in the bill also, is it not?—that a separate provision be made for the railroad employees who already have a railroad retirement system.

Mr. VINSON. Then it is in perfect accord with your views to have it plainly stated that the railroad employees should be excluded from the bill?

Secretary PERKINS. Oh, yes, sir.

Mr. VINSON. While the committee has made the recommendation that in the contributory annuities the tax beginning in 1937 be one-half of 1 percent of the wages, we were told that if this rate were raised initially to 1 percent, beginning in 1937, and then graduated, in the regular periods, from that base, there would be a saving of \$300,000,000 annually at the end of the road, at about 1965.

Secretary PERKINS. Yes.

Mr. VINSON. What is your personal view in respect of the initial rate as it affects contributory annuities?

Secretary PERKINS. I do not think it really matters, sir, which you do; it is a question as to whether you want to spend your money now or later. That is about all that it amounts to.

Mr. VINSON. What are your personal views in regard to that policy?

Secretary PERKINS. I think that is a matter to be determined, really, by those whose primary obligation to the President and to the Government is to advise upon financial matters.

Mr. VINSON. I do not know of any one whose views I should prefer here than yours. Of course, if you do not care to give expression to them—

Secretary PERKINS. I am free to say in this matter that I followed quite definitely the recommendation of the Secretary of the Treasury that it was better to collect a small sum in the beginning than to collect a large sum in the beginning; that is, to make the tax in the beginning as small as possible.

I took advice from what I thought was a good source and a sound source on that matter. It is a question wholly as to when you want to impose the increase in the tax. You can put on a larger sum in



the beginning and make the increments of the tax smaller as the years go on, or you can make your tax small in the beginning and let it increase by larger increments later. It does not really matter, from the point of view of soundness. I really got the best person to advise us as to what was the wisest, the best thing to do.

Mr. VINSON. Did the committee give any consideration to the securing of this money from sources other than pay rolls?

Secretary PERKINS. No, sir; that means a Government contribution out of general taxation?

Mr. VINSON. Yes.

Secretary PERKINS. We did consider it, and that is perfectly possible. I mean, a part of this whole system can be financed, if it is desired, by contributions on the part of the Government, those contributions to be made possible by increased general taxation, either income, inheritance, or any other form of taxation.

Mr. VINSON. Was any consideration given to some sort of a levy that would affect machinery and equipment, which of course, replaces man labor?

Secretary PERKINS. On the matter of collecting a fund to provide for unemployment insurance, rather than for old age, consideration was given to the idea of a tax upon labor-saving machinery which would, in some way or another, measure the amount of unemployment that might be created by that machine. After some consideration of it we decided—at least, most of us, I think, did—to abandon that as a practical theory at the time. Although theoretically it is a very enticing thing, it is extremely difficult to estimate in advance how much money that would bring you in. When the actuaries come to apply their scientific formula they have nothing upon which they can really make an assumption as to how much money you will get in by any such taxation. That is, you could not tell whether in a given year there will be a labor-saving machine introduced that will put out of work so many thousand men, or whether one will not be introduced in that year, but perhaps 10 years later. In other words, it is impossible to predict that sort of thing.

There is also, of course, a question in some minds, and I think there is a certain soundness in this, as to whether or not you want to discourage the introduction of labor-saving machinery. There are some types of labor-saving machinery which probably ought to be introduced only very gradually and on the upswings of industry. There are others which, by making less costly the product, and thereby increasing the market for it, almost immediately make for greater employment in the very field in which they are introduced. That is because they so lower the price of the article that people can buy it. For instance, we all know that if labor-saving machinery had not been introduced into the automobile industry there would have been a very small demand for automobiles from the general public because of the high cost and, therefore, there would have been a much smaller number of people employed over a 10-year period than have been actually employed.

So we are getting into a realm in which we have no exact measurements, when we begin to speculate as to what labor-saving machinery can be taxed.

I think, sir, that might well be a matter which could be studied over a period of 20 years, and we might evolve some formula which the



actuaries could apply in making a special tax for the purpose of adding, we will say, a special allowance to those who are put out of work for a long time by the introduction of technical improvements in the machinery.

Mr. VINSON. I can see a great difficulty in determining the approximate estimate that may be yielded from a tax on labor-saving devices that may hereafter come into the business world. Of course, many labor-saving devices are already in existence.

Secretary PERKINS. Yes, sir.

Mr. VINSON. And have already put out thousands and tens of thousands of people. The thought I had in mind was that a study might be given to labor-saving machines which were manufactured and operated under rights of patents, and that there might be a tax in the granting of the patent that would raise not only a considerable sum, but a sum certain necessary to do this job.

Secretary PERKINS. Of course, I think that is very interesting and alluring. The difficulty with it is, of course, in advance of actual use in industry nobody really knows how much the machine will save.

Mr. VINSON. But we know what machinery we have now. I do not know that we can put our finger on it, but we can find out just what machinery we have now.

Secretary PERKINS. Yes, sir.

Mr. VINSON. And, of course, we have limits in regard to totals of wages. For instance, it runs from 20 billions to 30 billions. I think that we could make a pretty fair estimate of that which we have now. I do not know whether in the initial stage we should take that or not, but it seems to me it is a thought worth considering.

Secretary PERKINS. I think it is a very important thing to be continued in study, and I want to assure you, sir, that the Department of Labor, which has been making a study of technological unemployment and labor-saving machinery for several years, will continue the study.

When you go into it deeply, you find it a very difficult subject, and you find that the conclusions are not always those which you would have anticipated would be your conclusions.

We should continue to make such a study, and it is only after 10 or 15 years of such study, with comparisons from time to time, that you can really draw any valid conclusions as to the amount of payroll which is dead due to machinery. But we will be very glad to continue that and shall hope to make it available to the Congress from time to time.

Mr. McCORMACK. In other words, this is a rather poor time to make the survey to determine whether there is, in fact, a general let-down in employment due to the introduction of labor-saving machines, is that true?

Secretary PERKINS. You would be surprised at the number of labor-saving devices which have been introduced in industry in the last 2 or 3 years.

Mr. McCORMACK. This is what I mean. During a depression period is a poor time to draw conclusions on labor-saving machinery. Over the long run of time, labor-saving machinery will increase employment by making possible lower production costs and lower prices to the public. For that reason this is rather a poor time to make a survey.

Secretary PERKINS. Exactly; because the market is not normal.

Mr. VINSON. It would not be a poor time from the viewpoint of the employer, who pays the tax, to give a study to the matter of relief of that pay-roll burden. I feel certain that there is not any controversy between the gentleman from Massachusetts and myself on that.

Mr. McCORMACK. There is seldom any controversy between the gentleman from Kentucky and myself.

May I ask this question? Madam Secretary, have you given consideration to a general manufacturers' excise tax, for example, to meet this problem?

Secretary PERKINS. The 3-percent tax on payrolls, sir, is in the form of an excise tax.

Mr. McCORMACK. True. It is limited, of course. This is a national problem, the problem of all the people. In a sense, that is an excise tax, but it is a limited one. My inquiry is whether or not the committee gave consideration to a general manufacturers' excise tax with the necessities of life exempted?

Has the committee given consideration to the general subject of a manufacturers' excise tax?

Secretary PERKINS. Do you mean just manufacturers?

Mr. McCORMACK. A tax at the source.

Secretary PERKINS. This tax here does not cover manufacturers alone. It covers employers without regard to whether they are manufacturers or something else. It is an excise tax on the pay roll itself and has relation not to the production of the article but to the persons employed.

Mr. McCORMACK. I know. It is, in a sense, a direct tax on business, and if the States provide for a contribution by the employees, it is a direct tax upon the employee. My question is whether or not consideration has been given to the imposition of a general manufacturers' excise tax to raise the money, to eliminate the necessity of imposing a tax upon the employer and a tax upon the employees' pay roll.

Secretary PERKINS. You mean, in order to raise the funds for the old-age annuity, or to raise the funds for the unemployment insurance?

Mr. McCORMACK. For each.

Secretary PERKINS. Well, we were directing our thought, I am free to say, directly toward these two objectives—the unemployment insurance and the old-age annuities; and, in devising the taxes, we tried to indicate these taxes in the spot which would develop the necessary income and the necessary impetus to the enactment of State laws in the matter of unemployment insurance.

Mr. McCORMACK. What I was referring to is this: I realize the situation as to the old-age contributory annuity. I did not have that in mind, because that is a new plan.

Referring to the noncontributory pension and to the unemployment insurance or unemployment compensation, was consideration given in a study of that to the imposition of a general manufacturers' excise tax to raise the necessary amount of money?

Secretary PERKINS. May I distinguish between the two, sir? The old-age pension is a direct contribution out of any public funds there may be.

Mr. McCORMACK. But we have got to pay something; the Federal Government has got to pay something.

Secretary PERKINS. On the old-age pensions we did not consider how the funds should be raised. That is for the Congress to say, how taxes shall be imposed, and what is the nature of the taxes. With regard to the unemployment insurance, we do not believe that this is an appropriation out of general taxes. The taxes raised by the 3-percent excise tax on pay rolls will not be used to pay unemployment insurance or unemployment benefits.

That is a flat tax to secure revenue for the United States Government for all purposes and for any purposes. There is provided an offset against it so that any employer who is contributing under a State compulsory unemployment-insurance law a premium in the amount of 3 percent which will build up for his State a fund out of which unemployment benefits may be paid, will be exempt from the payment of the 3-percent tax which is otherwise assessed.

In other words, it is not the assessment of a tax out of which benefits will be paid. It is the assessment of a tax on a person who is not paying a premium out of which benefits will be paid.

We, therefore, did not consider, in the other appropriations—that is, the appropriations for dependent old age, for dependent children, and for public health—we did not consider or think it our duty to advise the Congress as to how the taxes should be raised. If it is necessary to impose new and different taxes, we believed that it was not our function to indicate to the Congress how they should impose that tax.

Mr. REED. Madam Secretary, I wish you would explain for my benefit—perhaps some of the others of the committee would be interested to know—just what becomes of the pension systems adopted by the various industries of the country who have built up their own pension funds, if this legislation is passed? How will this affect them?

Secretary PERKINS. It does not affect them at all. Those are not compulsory. It is to be assumed that many people will desire to provide for themselves a benefit far in excess of anything they can hope to collect from their compulsory insurance. That is, the compulsory insurance will never provide any very large—unless the tax is greatly increased over anything we now have in mind—will not provide any very large and comfortable living for an aged person when he is 65 years and many people will wish to participate in mutual and voluntary funds out of which they will, at age 65 or 70, draw much larger benefits.

The funds to which you refer, which have been, in the past, established by a few industries, for the retirement benefit of their employees, will be in no way affected by this. I mean, those are voluntary funds. They are not compulsory. The income from them will be added to any compulsory benefits, or benefits from any compulsory fund to which the employees have contributed.

Mr. REED. One other question. You referred to 28 States that have old-age pension laws. I wonder if you have available and can put in the record the maximum benefits allowed under those systems in each of those States?

Secretary PERKINS. With the exception of Massachusetts and New York, the maximum is \$30 a month. Massachusetts and New York have no maximum, and make their allowance dependent upon the particular need of the individual. That is, they supplement what-

ever income or source of support he may have, up to what appears to the administrative officers to be his absolute need. They do not go beyond his absolute need.

MR. REED. While they have no maximum, then, in Massachusetts and New York, have you any idea of the average that they are now paying in those States?

Secretary PERKINS. The average is \$19.74. That means, of course, that there are some people receiving above that.

MR. REED. I understand. Thank you.

MR. DINGELL. Madam Secretary, I would like to ask just a question or two. In the deliberations of your Committee on the general subject of social security, was any thought or consideration given to that class of men and women in this country between the ages of 45 and 65?

The reason I mention that particular span of life is because of the discrimination against men and women in that particular period of life. I am wondering whether the Committee has given any thought to, possibly, some statutory method of correction to alleviate the condition among that class of our citizens.

Secretary PERKINS. Yes, sir. People who are between 40 and 65 years of age, unless they are sick people, are well able to earn their own living, if they have the physical capacity to produce sufficient of the wealth of the Nation to maintain themselves.

The only difficulty is that we do find, under some modern conditions, that that particular group has great difficulty in getting work. Therefore, they have unusually long periods of unemployment and they are, therefore, unemployed people rather than aged people. They will be taken care of under the unemployment-insurance scheme.

That is, those persons of 40, 45, and 50, who get out of work and are not able to reestablish themselves in a job on account of their age, will merely have prolonged personal periods of unemployment.

They will be entitled, under their State laws, to regular periods of unemployment compensation, whatever they are entitled to under the laws of their State; and, in addition to that, the feature of the work benefit following the cash benefit is particularly designed to be of assistance to just that particular type of person and it is referred to in our report as a plan of employment assurance.

That is, after that group have exhausted the cash benefits to which they are entitled under a real, sound, insurance system, if they are still unable to find work, they will be given a certification as being eligible for the most available piece of public works. When I say "available" I mean suitable to their training and experience, and available from a geographic standpoint, something that they can get to.

That is, that particular group will look to systematic, planned-in-advance public work for occupation and, therefore, income, during the perhaps prolonged period of unemployment.

But I want to point out to you that that group of 40 years of age do not suffer any substantial excess of unemployment during the really prosperous times, the highly prosperous times. They are only a marginal group. They are a little more adversely affected by the regular ups and downs of unemployment cycles, and that was in our

mind when we provided for a work benefit following the cash benefit. It was thought to be a sounder way of providing for that group than to make an extended and what we call sterile cash benefit. That is, the cash benefit does not itself put them to work and so, out of their work, creates that activity, that demand upon production, which work does.

Mr. DINGELL. I appreciate that during the peak of employment, during the prosperous times in this country, the employables above 45 years of age have a far better opportunity for employment. But I am wondering whether it had occurred to the Committee, possibly to yourself as head of the Department of Labor, whether some statutory provision should not be made to restrict employers from making the inquiry as to the actual age of the man.

I know that in our community, which is a highly industrialized section of Detroit, it is physically impossible for a man, after about the age of 45, to obtain employment. The mere fact that he replies, through the medium of a questionnaire, and states that he is 45, automatically excludes him, during a depression period.

I realize that some latitude is allowed during a time of great demand for labor. But that is not true in times such as these, and that situation is especially acute in times such as these.

It frequently happens that a man of 45 years may have one or two or three children at school or at a university, and he may have one or two other minor children he is looking after, and he is absolutely unable to maintain them.

I am wondering whether such a thought might have occurred to the committee, as to some specific statutory provision in a Federal law which would restrict the employers from asking this question; because I have assumed that it is not any of the employer's business to know a man's age unless it is for the specific reason of exclusion.

Secretary PERKINS. I think I can answer truthfully that the Committee as a committee did not consider that, because that did not seem to them within the scope of their mandate, and the scope was broad enough so that they needed all the mentality they had to consider the problems that were really before them.

However, I have myself often given consideration to that particular item, and have found that it is full of very grave difficulties on enforcement and on actual public welfare, when I begin to think of applying it. I think we shall have to rely, at least until we have exhausted the possibilities, upon educational methods of preventing the exclusion of people from work at what is a relatively young age. You have to rely upon systems not making it unusually advantageous to employ only the young.

It is true, as one of the members of your committee indicated in a question, that some of the group insurance plans which relate to life insurance, have put a kind of advantage upon having in the employ of any individual employer a high percentage of young people who are not so likely to be dying, and therefore collecting their benefits. It is perfectly possible to correct that, however, by providing for lesser benefits upon death to those who are older when they enter the system. That correction of the policy has been made by some of the more progressive insurance companies that write this type of group insurance for the very purpose of cutting down that incentive to reduce the number of persons over 45 in the total group.



I think it is a very complicated thing and one that we should study with a good deal of care.

There have also been, as you know, claims from time to time that the likelihood of the individual to bad results from a minor accident increases as the individual grows older; that is, he is likely to have, as he becomes older, certain arterial difficulties which even from a slight injury will have a serious result in the loss of use of a member. The system of some of the insurance companies and some of the States in permitting the writing of workmen's compensation on what is called the "merit rating basis" has encouraged that exclusion of the old, I think without any intention to do so originally. It has been on the whole a very disadvantageous system and one which those who are responsible for the administration of that law in some States are only now becoming aware of. In other words, this was one of the mistakes made which has resulted in a social situation which we are now recognizing and trying to correct.

The matter of a statutory requirement not to ask a man's age is fairly complicated. I do not know that I should want to be charged with enforcing it unless I were given a pretty large staff of inspectors and investigators.

Mr. CULLEN. There is one thing I would like to clear up, Madam Secretary:

This bill would not affect any large business corporations who have a systems of pensions or unemployment insurance today? It would not affect them, in your judgment?

Secretary PERKINS. I do not know what you mean by that, sir. It would certainly affect them. I mean, they would be required either to bring their systems into the system permitted by the State, or to give it up.

Mr. CULLEN. I have in mind large business corporations now, in New York in particular.

Secretary PERKINS. Yes.

Mr. CULLEN. Who have a system of pensions and also a system of unemployment insurance. In the event of the passage of this bill by the Congress, would that compel them to abandon their systems and come under the compulsory system?

Secretary PERKINS. It would not compel them to abandon their systems. I would like to discuss the two things separately, the old-age provision and the unemployment insurance provision. They would either have to carry their own system independently in unemployment insurance and in addition to any compulsory system, or they would have to bring their system under the compulsory law of the State. The States can by this bill permit any of those existing voluntary systems to continue if the State so desires, and they can permit them to continue under any regulation or under any inspection or supervision that the State cares to set up; that is, they are not excluded if the State permits them.

Under the old-age provision where the pension is a matter of a contractual right entered into between the employer and employee at the time of his hire, the employer can certainly not refuse to pay to any employee upon retirement a sum which he has previously promised him. If it is in excess of the sum which he would be compelled to pay by the law, he will still be compelled to pay in excess of the



law. If it is less than the compulsion of the law, he will be obliged to pay up to whatever sum is compelled by the law.

Mr. CULLEN. I understand that. In the final analysis it would be discretionary to some extent in regard to these large business corporations.

Secretary PERKINS. With regard to unemployment insurance, sir, it would be discretionary with the States to determine how they would regulate them and whether they should permit them or not.

Mr. HILL. Madam Secretary, is this unemployment compensation provision in this bill unemployment insurance?

Secretary PERKINS. "Unemployment compensation" is used to describe unemployment insurance; yes, sir. We have hesitated to call that insurance because of the fact that the actuaries found that because of the uncertainties of the assumptions which we could give them, it was impossible to make the ordinary actuarial computations which they regard as basic in a flat insurance system. But here, with the limitations upon benefits, you are safely within an insurance rule.

Mr. HILL. I understand in the British system the unemployment compensation takes the form of a flat payment to each unemployed within the provision regardless of the amount of salary such unemployed person may have received during his employment. That is not your idea in connection with this bill, as I understand it.

Secretary PERKINS. We wrote in our report to the States that the unemployment rate should bear some proportion to the earnings of the individual, should be a percentage of previous earnings.

Mr. HILL. Your scheme here involves in connection with the unemployment compensation feature what is called "work assurance", to be taken care of through provision by the Government of public works to take up the slack in times of depression. When a beneficiary under the unemployment compensation feature has exhausted his benefit payments, that is, he has received all that he will be entitled to receive, then the idea is, as I get it, to place an individual in employment under the Public Works program.

Secretary PERKINS. Yes, under some rules and regulations to be developed.

Mr. HILL. How would he be guided toward this work relief? Do you have machinery set up in here for that?

Secretary PERKINS. Yes, sir. The administrative machinery necessary to develop and to administer unemployment insurance will necessarily involve use of free public employment offices, because of the fact that no man will be allowed to collect unemployment benefits if there is a job available for him, that is, a paid job in private employment available for him. Therefore, he must be registered continuously with a free public employment office which will be assisting him in every possible way to find normal work and normal occupation which will put him back at his usual wages or something approaching his usual wages. Therefore, he will be continuously registered with the free public employment office.

When the time comes that he has exhausted his benefit payments—and by the way, the usual method is to pay these benefits through a cashier who is physically located in a free public-employment office, consequently it is the most convenient way for all concerned—the records are there and the man is there.

Mr. HILL. That assures contact with the public employment office. He must receive his payments through that agency, as I understand.

Secretary PERKINS. When he has exhausted all that he is entitled to in the way of a legal cash benefit, when that has all been paid and the end has been reached, and that is all crossed off on his card, he will then be referred by this office to the most available public works, with the certification that he is eligible for what is known as a works benefit; and they will put him to work. The office which supervises his payments cannot direct just which piece of work he shall do, but the Public Works director can put him to work on the most available Public Works object.

Mr. HILL. We have at the present time, as I recall it, the employment offices under the Wagner-Peyser Act.

Secretary PERKINS. Yes, sir.

Mr. HILL. Is that the same as the National Reemployment Office?

Secretary PERKINS. No, sir.

Mr. HILL. Is that a different set-up?

Secretary PERKINS. There is a difference in it, although they are under the one management.

Mr. HILL. Is it contemplated you will continue both of these employment offices or just the one?

Secretary PERKINS. It is contemplated that the States that pass unemployment-insurance laws will also at the same time take advantage of the Wagner-Peyser Act and come under the provisions of the Wagner-Peyser Act in reference to their employment services; and that they will agree to administer their unemployment-insurance act through the Wagner-Peyser offices, which are State and Federal cooperating offices.

The CHAIRMAN. Madam Secretary, we thank you for your appearance and the very thorough and helpful statement you have given with respect to the proposed legislation. We appreciate it very much.

Secretary PERKINS. Thank you.

#### STATEMENT OF HARRY L. HOPKINS, FEDERAL RELIEF ADMINISTRATOR AND MEMBER OF THE COMMITTEE ON ECONOMIC SECURITY

Mr. HOPKINS. Mr. Chairman, and members of the Committee: I shall confine my direct statement to two phases of this bill, unemployment compensation and old-age pensions.

I think the Committee should understand that the Committee on Economic Security recognized that unemployment is not actuarially insurable. That is the chief reason why we suggested the name of "unemployment compensation". We know perfectly well in a depression of this kind no insurance fund would stand up, just as no unemployment-insurance fund in Europe stood up during the depression.

Old age is actuarially insurable, as are one or two other things.

There has been some discussion as to the Federal participation in terms of funds in connection with unemployment. The Committee felt that it was submitting a proposal covering security for unemployment and that unemployment compensation is only one phase of that. We know perfectly well that many workers after the 16 weeks

which this bill provides of getting a cash benefit will still be unemployed. We know that the number of weeks of cash benefits is far smaller than, about half the size of the number of weeks benefit, for instance, that the English insurance scheme gives. But it was the judgment of the Committee, in which I for one heartily concur, that employment assurance provided by the Government or governments is an essential factor in this whole program.

The time may come when it will actually be incorporated as part and parcel of this bill. It is a very difficult thing, however, to write in an insurance bill. The works program which the President has proposed does in effect do that very thing now. We knew perfectly well that an unemployment-insurance bill does nothing whatever for those that are now unemployed, and therefore it would have been absurd to present unemployment compensation by itself with the kind of a situation that we have facing us. So I visualize employment assurance. I think it is better that at the end of 15 or 16 weeks, the benefit from that time become a work benefit rather than a cash benefit.

Someone may say "Why give any cash benefit at all? Why not make it a work benefit, an employment assurance bill right from the beginning?"

The answer to that is that this covers a great many thousands of people who are thrown out of work suddenly. It is essential that they be permitted to look for a job. They should not be doing anything else but looking for a job. We felt that in that period of 2½ to 3 months the beneficiaries should get an insurance benefit in cash.

So the Government is making a contribution to this whole picture, its contribution being in terms at the moment of employment assurance. Therefore, when discussions are before us as to whether or not there could not be a Federal tax for this or that part of this program, it seems to me the answer to that is that the Federal Government is sharing in this whole enterprise.

I am not going to discuss the technical aspects of this, because you have heard it presented by people who can do it far better than I.

I want to say this about old-age pensions: Certainly no member of that Committee wishes to make old-age pensions a niggardly business. But if you accept the premise that the Federal Government should give a grant in aid to the States, then in effect the burden of the size of the pension rests with the several States and is not determined in the main by the Federal Government. It seems to me that that is as it should be. The bill says that the Federal contribution shall not exceed \$15 per case. As a matter of fact, if that were not in the bill today, we would not pay more than \$15 per case. We would not pay more than \$15 per case anyway, in any State in the Union, whether it was in the bill or not, because in no State does the average pension exceed more than \$30 a month. As the Secretary of Labor said, the average old-age pension in the United States for the 180,000 people that are now getting old-age pensions is something under \$20 a month. You must remember that the size of the old-age pension is governed by local public opinion and by local interests. People do not need the same pension in all parts of the country. In many parts of the country the old-age pension could be half of what it is in another part of the country. It seems to me the Federal Government should go along with the States, letting the States determine in the main under certain appropriate standards the size of these old-age pensions.

There has been some discussion as to how much money that will cost. Nobody knows, of course, Mr. Chairman, accurately what that will cost. We know that 180,000 people are now getting old-age pensions in some 28 States. We know in the families on the relief rolls that there are 750,000 old people. We do not state that those 750,000 would be all eligible for pensions, because many of them have two or three able-bodied people in the family, able and willing to work. But if you paid pensions to 600,000 people, which would be more than three times as many as are now getting old-age pensions, and at the same benefit they are now receiving, the total cost would be still under \$150,000,000.

I hesitate even to express an opinion as to what it will be this year. We thought after canvassing it carefully it would be about \$50,000,000. If we paid the bill today and no pension laws were passed, it would cost the Federal Government about \$20,000,000 to meet 50 percent of the old-age pension cost.

Undoubtedly many States will pass new bills, but you must bear in mind that the States that did have pension bills are the States in the North, where the cost per case is the largest, and where you have the largest population. You must not think in terms of 28 States being three-fifths of 48, because I venture to say that nearly three-fourths of the population of the United States have now old-age pension bills in the several States.

I think, Mr. Chairman, those are the two statements about the committee's work that I would like to make formally to the committee.

The CHAIRMAN. Mr. Hopkins, information has come to the chairman that you perhaps had in mind some thoughts in connection with the Townsend pension plan. If so, I am sure the committee would appreciate your opinion on that subject.

Mr. HOPKINS. Mr. Chairman, my opinion on that subject is that it is a cock-eyed plan. The committee gave it consideration on two fronts, both as to the method of the tax—if the Federal Government is ever going to tax any such sum of money, we can think of 40 ways and the Congress could think of 40 ways to use that money more effectively than in this manner, it seems to me.

Mr. KNUTSON. Mr. Chairman, right there may I ask a question? The CHAIRMAN. Were you through?

Mr. HOPKINS. I can say a good deal about it if you want me to.

Mr. KNUTSON. I would like to take just a moment to read a communication which the messenger has just brought me. It reads as follows:

The Townsend plan would probably cost the sum named by the Secretary—

I suppose this was written right after the Secretary testified this morning—

but only for the first year, as it would create a huge revolving fund that would make it self-supporting, as it would increase the gross turn-over of the country from 40 billion to 200 or 300 billion.

Mr. HOPKINS. Well, now, Congressman—

Mr. KNUTSON. I am just giving it to you for what it is worth.

Mr. LEWIS. I think that is right, it certainly would not last more than a year. It would not last a month.

Mr. HOPKINS. There are a lot of petitions in here. Of course, you can get petitions, offering everybody in the world \$200 a month, all

the sons, sisters, daughters, uncles, aunts, and everybody else. Of course, they put a lot of high pressure behind this thing. I have before me some of the documents sent out in order to get this thing before the Congress. Here, for instance, is one of them [reading]:

Smother these Congressmen with petitions.

This is in a document called "Old Age Revolving Pensions." [Reading:]

By concerted and vigorous effort we will impress Congress with the universal demand of the people for necessary legislation to put the plan into operation.

Here are some more of them [reading]:

Part of these funds will be used for the expense of a delegation of reliable men to go to Washington and present this plan to the President and our lawmakers.

Mr. McCORMACK. What fund is that?

Mr. HOPKINS. That was the fund that was raised by the proponents of the Townsend plan. They have been raising money all over the country.

Here is a document from them which reads like this:

Obtain from the newspapers all possible publicity, both for the Townsend plan and for this meeting. It should be possible to have newspaper publicity each and every day of the week before the meeting. Draw the attention of the press to the fact that this will be the largest simultaneous meeting ever held in the world. Use every means of publicity possible.

There they took the newspapers into camp. [Reading:]

Make a big noise about this meeting and it's going to be the greatest thing of the kind ever attempted.

It is believed that many of the churches will be willing to cooperate with you in this movement, but please have it understood that you will be allowed to take contributions for campaign funds.

The speaker should urge every interested person to give a dollar or as many dollars as possible. The dollar idea should be put into the minds of the people. Have the speaker stress that everyone should help with all they can afford, be it much or little, but we do not want the widow's mite.

That is put in capital letters. [Continuing to read:]

Arrange for plenty of volunteer ushers. Also arrange for plates to take offerings in and appoint committee to handle same. Then when the appeal for funds is made by the speaker, there will be no delay in taking up the donations offered.

Then finally, of course, is the last word (reading):

Please wire us the net proceeds of the meeting and forward us, at your earliest convenience, a cashier's check.

Mr. HILL. By whom is that signed?

Mr. HOPKINS. This signed by F. E. Townsend and R. E. Clement.

Mr. HILL. Have you in your study of the Townsend plan determined what is meant by the "revolving fund" referred to?

Mr. HOPKINS. No; I never could quite make that out.

The CHAIRMAN. Does that state to whom or where that contribution shall be sent; where the cashier's check is to go?

Mr. HOPKINS. Yes; there is an address on this as to who gets the money. It is on the "Old Age Revolving Pensions"—148 American Avenue, Long Beach, Calif.

Mr. Chairman, the proponents of this scheme—and I do not laugh it off in terms of the popular support which it has, because it has a lot—are trying to put some of the rest of us in the position that we do not believe in old-age pensions. Some of us have been fighting for



old-age pensions long before this thing was ever heard of. We do not believe in a niggardly old-age pension. I think the Federal Government should go along with the States as far as the States want to go with old-age pensions. I have no doubt you will see, in the years to come, the States increasing this average over \$20 a month. There is no question about that. They ought to. But we believe in old-age pensions just as much as anyone else. In our insurance bill, which seems to be a sound principle for old-age pensions, because it is insurable, old-age pensions up to the time when this insurance fund begins to operate, are essential.

That is all.

Mr. REED. Mr. Chairman, I understood that you suggested that Mr. Hopkins might insert in the record anything that he might have to say.

The CHAIRMAN. You have permission to insert in the record any extension of remarks that you may wish to make.

Mr. TREADWAY. Right on the point of the testimony that the Secretary of Labor gave, that your committee estimated that the Townsend plan will cost \$20,000,000,000 the first year, what is your idea? I do not know whether she later covered it or not—I was not here at the latter part of her testimony—but what after the first year is the estimate of the cost of the Townsend plan?

Mr. HOPKINS. Of course, it depends upon who is making the estimate. Our actuary stated that the cost would go down very little.

Mr. TREADWAY. It would keep about \$20,000,000,000?

Mr. HOPKINS. Yes.

Mr. TREADWAY. Per annum?

Mr. HOPKINS. If you follow the kind of thing they are talking about, they make a lot of assumptions that something miraculous is going to happen so that the cost will go down. We do not believe it will.

Mr. TREADWAY. In other words, to the best of your knowledge and from your study, if the first year's cost is \$20,000,000,000, it will not decrease materially below that in following years?

Mr. HOPKINS. I do not think so; no.

Mr. TREADWAY. Is that your view?

Mr. HOPKINS. Yes.

Mr. McCORMACK. Just one suggestion; this is not a question: We can take legislative notice, as courts take judicial notice, of existing circumstances. These hearings are probably going to be referred to for many decades to come and generations to come. I have failed as yet to see any evidence put in as to the existing circumstances and conditions with reference to unemployment, which, of course, is the foundation for this legislation. I am going to suggest that either Mr. Hopkins or some other representative of the cabinet or of the executive branch of the Government put into the record in a revision of remarks, complete data in that respect.

Mr. HOPKINS. I think that is a very good point. I shall see that that is done, Mr. Chairman.

Mr. VINSON. It occurs to me that we also ought to have the best data available with reference to the burden that the Federal Government is now bearing for the aged, and as far as you can, the burden that other governmental units are shouldering, not alone in regard to unemployment insurance, because we have been told that that burden is \$31,000,000, but as to other burdens, State, county, city,



and District, which are paying out large sums in the care of the aged. I think we ought to have that picture presented as definitely and as specifically as can be.

Mr. HOPKINS. We have that and we shall be glad to file that with the committee at once.

The CHAIRMAN. We thank you, Mr. Hopkins, for your appearance, and the testimony you have given the committee.

(Whereupon at 12 o'clock, the committee adjourned until 10 a. m., Thursday, Jan. 24, 1935.)





BOSTON COLLEGE



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